C5150-3
5/24/89

Smaller Chains Defy the Odds

Exclusive Report Spotlights Regions, Hot Cities and Chains—page 67

Discount Store News®
THE NEWSPAPER OF DISCOUNT RETAILING
SECOND CLASS
VO
Published Biweekly, Every Other Monday, Monthly in December, by Lebhar-Friedman Inc.
$4 per copy
May 8, 1989

DS
0024037C 1HD
MS JEANNE LONG
CONGRESSIONAL INFOR SVC
4520 EAST-WEST HIGHWAY
BETHESDA MD 20814 **

Kmart Eyes Payback On New Technology

By Arthur Markowitz

TROY, Mich. — K mart plans to upgrade its core information network with new in-store computers as it attempts to squeeze greater profits out of its billion dollar-plus investment in the latest retail technology.

K mart Corp. chairman Joseph E. Antonini has set specific benefits that the discounter must achieve from its heavy expenditures in technology. That investment includes computers and such other equipment, and systems such as scanning, satellite communications, electronic data interchange (EDI) and automated distribution centers.

The discounter's core system, called KIN (K mart Information Network), currently uses IBM Series 1 computers as the brains to operate the many retail automation systems found in K mart stores, and to communicate that information to the data center at the Troy headquarters. These include a wide range of retail functions, from UPC bar code scanning to layaways.

The computers to be used for what will become KIN II will be chosen later this year, said David M. Carlson, senior vice president, corporate information systems. KIN II is expected to be phased in from 1990 through 1994. KIN I's hardware "has limited capacity and it's hard to put new applications into the system," he explained.

Part of K mart's billion dollar-plus investment will finance the installation of 20,000 in-store computers to process the new retail systems such as scanning and EDI.

Antonini said the retailer expects to spend more than $500 million by 1990 to install nearly 20,000 computers in the

(Continued on page 225)

A Scanner at Every Wal-Mart Checkout—see page 181

U[illegible] that can be easily converted to a SuperCenter (above), Wal-Mart plans to open 38 metro market stores. (DSN photo)

Wal-Mart's Prototype Paves Way for Metro Market Drive

By Richard C. Halverson

BENTONVILLE, Ark. — Wal-Mart, in yet another move away from its small-town, rural roots, has developed a new 114,760-square-foot prototype aimed at metropolitan markets.

The prototype comes designed with 20,000 square feet of expansion space, for a potential total of almost 135,000 square feet.

Wal-Mart could easily convert that size store to its SuperCenter concept, which offers both groceries and an expanded line of general merchandise. Wal-Mart's Washington, Mo., SuperCenter is 126,000 square feet.

The new prototype will be painted the SuperCenter colors of gray, red and blue, instead of the beige and blue of a traditional Wal-Mart, said Margaret Gilliam, retail analyst for First Boston. Of the 155 stores Wal-Mart plans to open this year, 38 will be the new size prototype, she said.

(Continued on page 28)

Sears Everyday Pricing Paying Off?

Skeptics Seek More Evidence of Long-Term Turnaround

Although Sears racked up a 15.4 percent gain in comparable store sales last March, some analysts expect momentum to taper off in the coming months. (DSN photo)

By Don Longo

CHICAGO — Two months after reducing prices on 50,000 items in its 824 stores, Sears remains an enigma to both competitors and most retail industry observers.

In recent weeks, the world's largest retailer:

- Reported strong first quarter sales and earnings gains;
- Eliminated 800 management positions after restructuring its retail group into six vertical businesses;
- Opened its first two Sears Ltd. "intercept" stores, designed for urban and suburban markets where Sears is underrepresented;
- Greatly expanded its highly successful Brand Central superstore-within-a-store concept to more than 100 Sears stores in seven states.

But, as the retail behemoth struggles to regain the market share it lost to discounters and specialty stores over the past de-

(Continued on page 226)

Recruiters from T.J. Maxx interview former Zayre employees at a one-day job fair sponsored by Ames.

Ames' Job Fair Softens Effects of Retail Merger

FRAMINGHAM, Mass. — In part to maintain the good will of the 1,500 Zayre headquarters employees who are losing their jobs, Ames is spending $300,000 to help them get new ones.

The efforts included holding a daylong job fair last month that drew about 700 Zayre employees and personnel representatives of some 50 potential employers.

Of 1,749 employees who worked at Zayre headquarters when Ames acquired the chain last Oct. 28, Ames offered

(Continued on page 225)

Largest IMRA Convention Issue

MARKETWATCH

Best Installs Satellite Communications

RICHMOND, Va. — Best Products is installing a $2 million satellite communication system after testing the technology at showrooms in East Baltimore, Md., Cutler Ridge, Fla., and Southcenter, Wash., last fall. The AT&T Tridom SKYNET satellite service will transmit data from Best showrooms to an AT&T shared hub facility in New York, which will then send the data over high-speed land lines to the cataloger's data processing center in Ashland, Va. Best may install a private hub in Ashland if traffic volume warrants the step, said Dan Rubin, Best's vice president of management information systems.

Teenage Shoplifting Found Common

NEW YORK — Shoplifting has become a rite of passage for many high school students, according to a survey conducted by Prism Asset Protection Consultants for *Parade* magazine. The study of 200 students found that 71 percent knew someone who had shoplifted and nearly one-third said they had personally done so. It estimated that one-third of high school students, slightly more girls than boys, are likely to shoplift at least once before graduating.

Office Place Acquires Related Business

AURORA, Colo. — The Office Place, a privately held six-unit office supply superstore chain, is strengthening its position in Colorado. It has acquired Pencils Inc., a five-unit, $5 million Denver commercial and retail office products dealership. The move follows The Office Place's recent purchase of a 49 percent stake in Frontier Business Products, a Colorado office equipment dealership. The terms of neither deal were disclosed.

SportsTown Opens 2 Texas Units

ATLANTA — SportsTown has opened two sporting goods warehouses in Texas to push its count in the state to three, with five more in Georgia. One SportsTown was a 55,000-square-foot unit in a new market, Dallas. The other was its second store in Houston, at 62,000 square feet the chain's largest unit. Previously, SportsTown units were about 50,000 square feet.

Hasbro Makes Bid to Acquire Coleco

PAWTUCKET, R.I. — Hasbro, the nation's largest toy maker, plans to acquire rival Coleco, which is in bankruptcy, for $85 million plus warrants that would allow Coleco creditors to buy 1 million shares of Hasbro stock. For the deal to proceed, Hasbro, supported by Coleco's unsecured creditors, has to persuade Coleco to halt plans to remain independent through a Chapter 11 reorganization, and then get approval of Coleco's bankruptcy judge. Coleco's Chapter 11 filing in July 1988 followed the roller coaster ride of its 1985 hit, Cabbage Patch dolls. Cabbage Patch sales soared to $600 million in 1985, then plunged to $250 million in 1986, when Coleco lost $111 million.

IBM Offers EDI Software Service

WHITE PLAINS, N.Y. — IBM has become a major third party vendor in the burgeoning electronic data interchange field. It is now offering Expedite Data Interchange software that translates proprietary EDI formats to such standard forms as ANSI X.12. using any of the company's computers that employ Systems Application Architecture. The new software complements the various EDI services now provided by the IBM Information Network.

Videotex Industry Forum Set for June

ROSSLYN, Va. — The Videotex Industry Association will sponsor its fourth annual business development forum June 19 to 21 at the San Francisco Fairmont Hotel. The conference, SERVICES '89, Building Mass Markets, will examine the state of the videotex field and the services, including home shopping, that companies are providing to consumers. Information is available from VIA, 1901 North Fort Myer Drive, Suite 200, Rosslyn, Va. 22209. Phone: (703) 522-0883. Fax: (703) 522-0884.

Kohn Recovering After Heart Attack

HOPKINTON, Mass. — Stuarts Department Stores president and chief executive officer Harry Kohn Jr. will not be in attendance at the International Mass Retail Association convention following a heart attack he suffered on April 13.

The prominent discount industry executive remained in the hospital until April 24, when he was well enough to return home. Kohn was expected to return to work at the 21-store regional discounter shortly before the May 13 IMRA convention, according to the company.

Circuit City Continues Fast Growth

Sales, Earnings, Margins Increase Despite Flat Market

RICHMOND, Va. — Keyed by its entry into new markets like Orlando, Fla., Las Vegas and Reno, Nev., Sacramento and two other California cities, Circuit City racked up record sales and net profits for fiscal 1989.

The consumer electronics chain based here predicted that growth for this year will total at least 25 percent, as it enters new markets like Miami (in early March) and Tampa, Fla., Philadelphia, San Diego and Phoenix, Ariz.

The fiscal 1989 growth came in spite of a relatively flat CE market nationwide. Circuit City's strategy of dominating existing markets resulted in some degree of cannibalization of sales from existing stores, said Richard L. Sharp, the company's chairman.

Despite growing competition, Circuit City also increased its gross profit margin to 29.2 percent of sales, Sharp noted. This is at least partially attributable to a shortage of stripped-down, low-end televisions and VCRs, which led to increased sales of higher-margin, enhanced feature models.

Sales for the year rose 27 percent to $1.72 billion, and net earnings shot up 38 percent, to $69.5 million. Comparable store sales increased a strong 7 percent.

The chain opened 20 new superstores last year, which contributed greatly to sales and earnings figures, and continued to replace brown goods-only stores with more fully-stocked superstores.

Stuarts May Get 2 of 3 Mars Units

NORTH DIGHTON, Mass. — Mars Stores is seeking bankruptcy court approval to sell two of its stores to Stuarts Department Stores, and one to Capital Enterprises.

Additional store locations might be sold as part of its restructuring under Chapter 11.

Stuarts offered to assume the leases, fixtures and inventory of Mars stores in Athol and Salisbury, Mass. The Hopkinton, Mass.-based discounter offered $1.3 million for the leases and fixtures, according to Mars' attorney, Nathalie Martin of Boston-based Fine & Ambrogne. Stuarts also offered to buy the store inventory for approximately 60 percent of its retail value, she added.

The third unit on the block is in Pelham, N.H. According to Martin, Capital Enterprises of Leominster, Mass., has offered over $700,000 for the unit. However, Capital president Barry Seldman would not comment on the pending deal. Capital operates close-out stores under the name Capital Resources.

The Pelham store was closed by Mars prior to its filing for Chapter 11 protection March 1. A store in Ludlow, Mass., was also closed during the first week of April, leaving Mars with 12 stores still in operation.

As far as any other unit sales, Martin said, "There are no other offers right now . . . There might be a couple of other stores up for sale eventually, but that will be up to operations."

Martin also noted that the sales and profits contributions of each Mars unit are still under review. "We're running numbers on various combinations of stores to see which would be best [for the future of the chain,]" she said.

IN THIS ISSUE

Against All Odds

Report on National and Regional Economic Trends,
Projections for Discounters' Sales in Upcoming Years,
Special Market Studies on Nine Hot Retail Markets,
Profiles of Regional Chains and Their Tactics for Success

Retail Outlook: 67
  Some Regionals Thrive Despite Odds 77
Regional Analysis:
  Sector Downturns Insulate Economy 83
New England Region: 92
  Providence, R.I./Stuarts
Middle Atlantic Region: 102
  Metro N.Y./TSS
East North Central Region: 111
  Chicago/The Wholesale Club
West North Central Region: 130
  Kansas City, Mo./ShopKo
South Atlantic Region: 136
  Charlotte, N.C./Rose's
East South Central Region: 150
  Birmingham, Ala./Bargain Town USA
West South Central Region: 159
  Houston/Auchan
Mountain Region: 165
  Denver/Yellow Front
Pacific Region: 170
  Sacramento/Fedco

Operations:
Retailers Have Designs on Lower Costs 176
Wal-Mart Set to Complete Chainwide Scanning 181
K mart, Sears Drop In-Store Financial Services 181
EDLP: The Search for Cost-Effective Advertising 187
Chains Test Computerized Front End Scheduling 191
Columns:
  Proper Maintenance for POS Systems 182
  Will the '90s Be the Decade of the Home? 188
  Shrinkage Increases Despite Store Efforts 191

FEATURES

Cast Your Ballot for Discounter of the Year 12
K mart Honors Outstanding Vendors 25
SPARC Balloting Begins, 2 New Categories 38

IMRA '89:
DIRECTIONS Today & Tomorrow

Preview of Seminars and Activities 49
Exhibitor Listing and Floor Plan 62
Schedule of Events 64

APPAREL 192

Consumer Study: Its Chains for Jeans 192
The Cutting Edge/
  The Benefits of Being Off the Beaten Path 192

HARD LINES 207

Generic Tobacco Rescues Sinking Sales 207
Marketwatch 207
K mart Tests Hispanic H&BA Area 208
K mart's Sports Giant: A Club of One 210

HOME PRODUCTS 196

Texas Hypermarkets
  Power CE 196
Sound Bytes/
  Add-On Features
  Offer Hope in CE 196
The 'Cable Kitchen'
  Cooks Up Volume 199
Crafts & More Stitches A
  New Niche 200

DEPARTMENTS

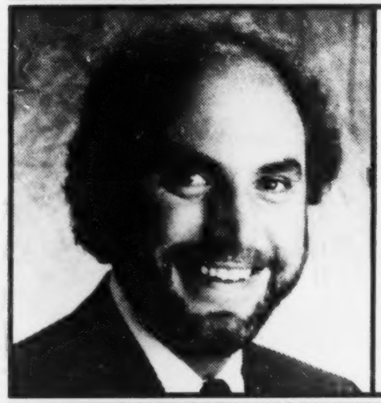
Classified 218
Columns:
  Guest Column 10
  IMRA President's
  Corner 8
  Publisher's View 8
  Taking Stock/
  Membership Clubs 7
Washington Report 10
Editorial 8,10
FinanceWatch 223
Manufacturer News:
  Hard Lines 212
  Home Products 203
Retail Management
Development Series 214

The Long and Short of BIG and Small

The BIG syndrome. It's powerful. It's dominant. It's contagious. It's destructive. It strikes without warning. It's painful and difficult to cure. Several retailers have it. Sears is suffering from it. Wal-Mart is thriving on it. Zayre was destroyed by it.

The small syndrome. It can also be powerful, viable and destructive. Several retailers have it. Mars is suffering from it. Ann & Hope is thriving on it. Danners was destroyed by it.

BIG or small? How BIG is too big? How small is too small? Is BIGGER better? Is smaller smarter?



TONY LISANTI
Editor

The debate goes on. The controversy continues. In today's business environment, it's praise the BIG guy, pity the small guy.

And so it seems that the BIG continue to get stronger; the small continue to shrink. Everyone wants to be BIG—until they grow up.

They even made a movie about the BIG syndrome. Tom Hanks, playing a 12-year-old boy, wished he was big. His wish was granted—small mind, big body. And it was great for a while. But in the end, he realizes—what some execs often realize—that bigger wasn't better.

Often, the big guys get the bulk of the publicity. Sears, K mart and Wal-Mart dominate headlines both in the business and consumer press. Rarely do Yellow Front, Grandpa Pigeons, Ann & Hope, Jerry's, Pamida or many others grab the banner headlines in *The Wall Street Journal* or major city newspapers or even *DSN*. But maybe they should. Maybe they warrant more coverage—and more recognition.

Readership studies conducted by *DSN* on a quarterly basis reveal that when readers (both retailers and manufacturers) were asked what could be done to improve *DSN*, the top response in 1988 was more coverage of smaller, regional retailers. This special issue does just that, beginning on page 67. It analyses the nine census regions, a key market in each, and a regional retailer that is successfully battling the big guys.

It's true that the big retailers have more clout with suppliers, developers, brokers, politicians, etc. It's true that they are technologically advanced and possess superior marketing capabilities. But they are not invincible.

On the other hand, there are many small, but strong regional retailers that can do things the big guys cannot. They are more flexible. They can make quick decisions. They understand the local market. They communicate better with the customer. And in many cases, they garner a larger percentage of profits to sales.

While there are many BIG retailers (and suppliers as well) gobbling up smaller firms, there are many small survivors. The small guy, albeit squeezed, will not surrender easily. Yes, the small guy does have a chance to compete.

Haim Dabah, president of Gitano, which has grown dramatically in a short time into a $465 million business, subscribes to the following philosophy: "When you are small, you must think BIG, when you are BIG, you must think small."

PUBLISHER'S VIEW

SPARC and IMRA Strengthen Discounting

First impressions often become lasting impressions. And my impression of IMRA's annual convention hasn't changed since I attended my first one 12 years ago.

What impresses me the most about IMRA's convention?

It's the sense of belonging, the spirit of cooperation, the camaraderie that exists among manufacturers and retailers.

We spend four days sharing ideas, renewing friendships, attending seminars, walking the exhibit hall and socializing.

And I think that's great. IMRA does a tremendous job developing programs year-round that encourage manufacturers and retailers to work together.

FRED FILER
VP/Publisher

Back in 1978, *Discount Store News* also recognized the need to develop and sponsor a program that would bring the retailer and the manufacturer together. It had to encompass a way to improve communication and give recognition to companies that consistently strive to be the best in their field.

And so the SPARC awards program was born. SPARC (Supplier Performance Awards by Retail Category) is in its 12th year and has become a respected industry event. It continues to grow and flourish because it brings the two sides together in a forum of positive communication and cooperation.

The SPARC program rewards outstanding performance by vendors in 20 merchandise categories. Award recipients are selected by retailers based on 10 criteria that measure a vendor's interest in the success of discount retailers. At this year's SPARC banquet, which will be held Aug. 13 in Chicago, 60 manufacturers will be singled out for recognition and acknowledged as the best in their field.

That same night, the Discounter of the Year is honored and, over the years, it has become the industry's true retailer recognition award. The Discounting Hall of Fame, also part of the program, is also very respected.

In 1986, we added the Vendor of the Year to the SPARC program. It honors one manufacturer, who in the opinion of the SPARC Awards Committee, has best demonstrated all the attributes that contribute to the success of their customers, as well as their own success.

And, so, similar to *DSN's* SPARC program, IMRA continues to be a positive force in discount retailing. Like SPARC, IMRA is dedicated to strengthening the industry.

If you would like to discuss the SPARC program, feel free to stop me in the aisles or ask anyone on the *DSN* staff.

I urge each retailer and vendor to work together in a partnership for growth. Have a productive and successful convention. Make a lasting impression.

IMRA PRESIDENT'S CORNER

IMRA: A Time to Catch Up and Get Involved

With the start of IMRA annual convention upon us, the staff is looking forward to meeting with everyone this week in Orlando. Not only does it give us the chance to renew old acquaintances and make new ones, it also gives the staff the chance to "catch up" with what is happening and begin our thinking for the IMRA fall season.

RICHARD HERSH

For those of you who have not attended an IMRA convention before, you should chat with Washington reps Robert Verdisco and Morrison Cain, about becoming more involved in the legislative scene. Also meet our director of conferences, Debra Dohnert, to learn about continuing education conferences. Joe Mosgkowicz will be happy to chat about booth space, membership, and continuing studies and reports.

For IMRA, the summer will give us the chance to look forward to a hectic fall season. Both the Compensation and Perquisite Studies will be compiled over the summer based on data drawn from the survey, sponsored by Ambassador Cards at the annual convention.

IMRA members should remember that there has been a change in the availability of the Compensation Study. Copies of the study will be available in June and only to those retailers who participated in the study.

The IMRA Perquisite Study, compiled every other year, will be available in early fall and allows retailers to compare their own perquisites with the industry norm.

This fall, IMRA will begin its seminar series with the Store Planning & Design Conference. Store Planning & Design will present an in-depth view of new concepts in space design.

The first conference will be on Nov. 29 in the Grand Kempinski Hotel in Dallas.

As always, we appreciate the continued industry support and the entire IMRA staff hope that you take the time this week in Orlando to become more involved in the association.

Discount Store News

is published by
LEBHAR-FRIEDMAN INC.
425 Park Ave., New York, NY 10022
212 371-9400
Subscription Services, ext. 379 or 419
Cable Address: LEBHAFRIED
Panafax: 212 838-9487

VP/Publisher **FRED J. FILER**
Editor **TONY LISANTI**
Executive Editor **Donald Longo**
Senior Editor **Arthur Markowitz**
Senior Editor **Kenneth M. Chanko**
Senior Editor **Laura Liebeck**
Senior Editor **Peter Hisey**
Associate Editor **Richard C. Halverson**
Associate Editor **Mary Ellen Kelly**
Associate Editor **Pamela Krein** (Los Angeles)
Senior Desk Editor **Martha Gloumousis**
Desk Editor **Michael Vickerman**
Desk Editor **Dawn Wilensky**
Editorial Assistant **Danita Minnis**
Art Director **Robert Brokman**
Graphic Artist **Karen Kikta**
Assoc. Publisher/Nat'l Sales Mgr. **JOHN FAILLA**
District Manager **Kevin Kennedy**
New York Area Manager **Jeffrey Larssen**
Production Manager **Mary Lewis**
Circulation Manager **Susan Hofmann**
Business Manager **Roch Minieri**
Research Director **Anne Frasciello**
Director of Manufacturing **Stan Kaufman**
Executive Director Circulation **Ed Nessel**
Group Publisher **James T. deGraffenreid**

DSN Board of Advisors
Jack E. Bush Pres., Rose's
Stephen Goldberger Chmn., Pres., Hills
Peter Hayes Pres., ceo, Child World
Richard Hersh Pres., IMRA
Peter Hollis Pres., Ames
Harry Kohn Jr. Pres., Stuarts
Arlie Lazarus Pres., Jamesway
Joseph Nusim Pres., CEO, Makro U.S.A.
Julian Seeherman Pres., Venture Stores
Stephen Westerfield Corp. exec. vp, Silo
Warren W. White GM, Clover
Herb Zarkin Zayre Corp.
Ray Zimmerman Chmn., Service Merchandise

Founder (1900-1981) **Arnold D. Friedman**

President **J. Roger Friedman**
VP/Publication Services **Barry Braverman**
Sr. VP/Group Publisher **James T. deGraffenreid**
VP/Planning **Harry A. Estes**
VP/Publisher **Jay Forbes**
VP/Finance **James Granato**
VP/Human Resources **Richard D. Groberg**
VP/Editorial Director **David Q. Mahler**
Sr. VP/Group Publisher **C. Reese Musgrave**
Treasurer **Barry Okun**

REGIONAL OFFICES
Boston 1 Gateway Center, Newton, MA 02158
617-527-6394
Regional Manager **James Malver**
Cleveland Summit One Bldg., 4700 Rockside Rd., Independence, OH 44131
216-642-3420
Office Manager **Martha MacVean**
Area Manager **Dave Tuttle**
Chicago 444 N. Michigan Ave., Chicago, IL 60611
312-644-8688
Regional Manager **Edward Nessel**
District Manager **Bruce Smith**
Area Manager **Jim Harvey**
Los Angeles 606 N. Larchmont Blvd., Los Angeles, CA 90004
213-464-8321
Regional Manager **John Donoghue**
Area Manager **Howard Zabner**
Correspondent **Pamela Krein**
San Francisco 400 Montgomery St., San Francisco, CA 94104
415-362-2575
Regional Manager **Richard J. Harrigan Jr.**
Washington 117-35 Striley Drive, Ashton, MD 20861
301-774-3895
Manager, Correspondent **Kenneth Rankin**
Correspondent **Deane Evans**
Japan Diamond-Friedman Ltd. Chain Store Age News Japan 1-4-2 Kasumigaseki, Chiyoda-ku Tokyo, Japan 504-6750

The Audit Bureau MPA ABP

Publisher of Discount Store News, Accounting Today, Nation's Restaurant News, National Home Center News, Drug Store News, Computer&Software News, Computer Product Selling, Chain Store Age Executive (with Shopping Center Age), *APPAREL merchandising*. Affiliates: Business Guides Inc. (Directories); Lebhar-Friedman Books; Inside Retailing (Newsletter); Chain Store Age News, Japan; Largo Music Inc.

Subscriptions
Call (212) 371-9400, ext. 379 or 419
Having a problem with your subscription? Send full details, including the mailing label from the last copy you received and your telephone number to Circulation Fulfillment Director, *Discount Store News*, 305 Madison Ave., Suite 535, New York, NY 10165-0079.

Permissions
Materials in this publication may not be reproduced in any form without written permission. Direct permission requests to Fred J. Filer, publisher, *Discount Store News*, 425 Park Ave., New York, NY 10022.

We welcome our readers' views, whether pro or con. Letters to the editor should be addressed to: **Editor, *Discount Store News*, 425 Park Ave., New York, NY 10022.**

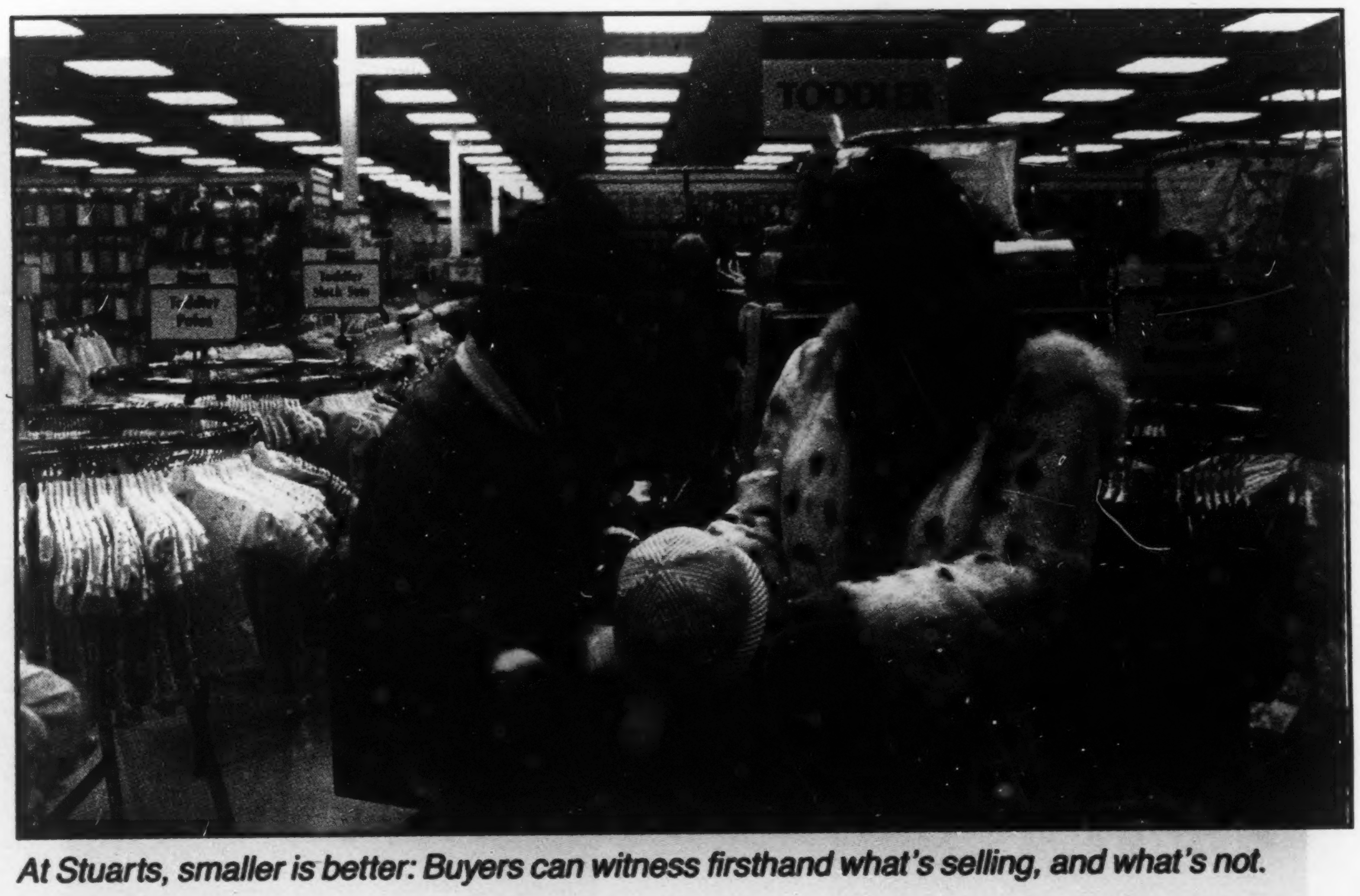
Against All Odds

Bargain Town USA wields convenience as its main weapon against Wal-Mart, entering markets too small to support the latter's larger stores.

Low Prices
Every Day
GUARANTEED
Nobody Beats
Our
Low Prices
Poster
Board

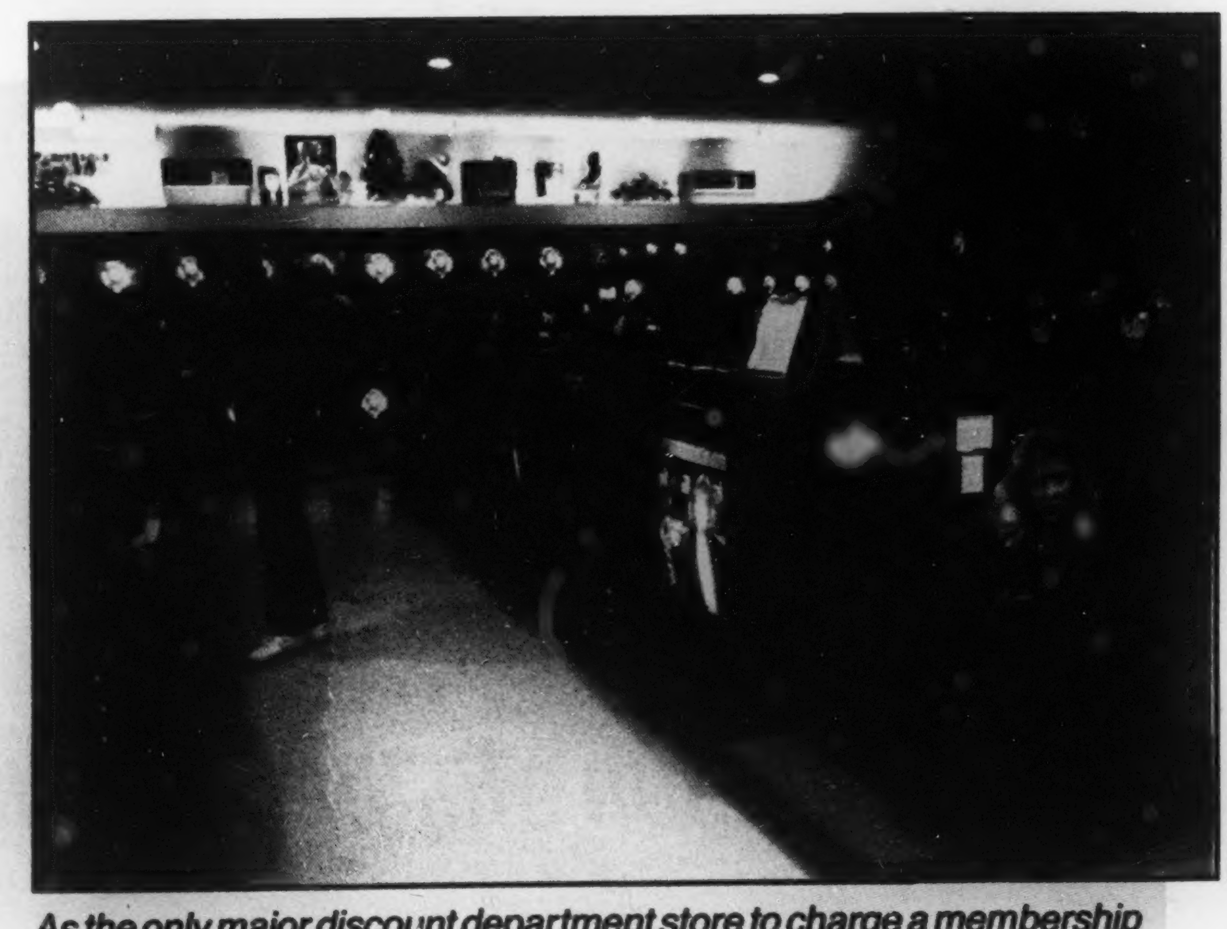
Super-regional operator ShopKo has wheeled out its own hypermarket, Twin Valu, to preempt entries by K mart and Wal-Mart.

Despite growing competition from the large national discounters—K mart, Wal-Mart, Target and the new Ames/Zayre juggernaut—some regional chains are thriving. Their main weapons: intimate contact with their customers and an understanding of local tastes and preferences. DSN examines how nine regional retailers are fending off their larger rivals and takes a shot at predicting national and regional economic trends and their effect on discount store sales.



At Stuarts, smaller is better: Buyers can witness firsthand what's selling, and what's not.

Fedco has built a loyal following in Southern California despite competition from Target and several wholesale clubs.



As the only major discount department store to charge a membership fee, Fedco occupies a unique niche in the industry.

(DSN photos)

Retail Outlook

Some Regionals Thrive Despite Odds

By Peter Hisey

The prognosis for regional competitors against national juggernauts like Wal-Mart, K mart and Sears is not encouraging. The past year has seen a run of buyouts, store closings, bankruptcies and near bankruptcies.

In the midst of all the bad news, though, several regional chains are not only surviving, but thriving. *DSN* took a look at several of these regional operators, and found a few distinct weapons they use to fight off their bigger, stronger and better-financed rivals.

One weapon inherent in the concept of regional retailing is intimate contact with local consumers and understanding their tastes and preferences.

Regional taste plays a key role in the success of retailers as diverse as Fishers Big Wheel, Ann & Hope, L. Luria & Son and ShopKo, all of whom feature some degree of specialization that the national chains can't match.

Ann & Hope, for instance, has been successful for a quarter of a century by dominating the Rhode Island market. It carries a broad selection of most-wanted items and fashionable apparel.

Fishers Big Wheel has concentrated on tiny Midwest markets often too small to interest national chains. In cases where it meets K mart and others, it has certain advantages, which its new prototype, introduced a year and a half ago, accentuates.

Because most of its markets are small and out of the way, the chain has been able to negotiate with nationally known brands rarely found in discount stores. Also, because its merchandise needs are relatively modest, smaller suppliers will do business with Big Wheel, providing the chain with exclusive and semi-exclusive products. Big Wheel has selected certain departments as dominance areas, and blows away competitors in domestics, window treatments and children's clothes.

The new soft lines-intensive format, which features domestics at the front of the store, has been very successful, according to company president Stan Brenner, and will be rolled out as quickly as possible. Most existing stores will be converted to the new look over the next few years. "We're trying to differentiate ourselves from the competition," Brenner noted.

L. Luria and Son, the Florida catalog showroom, is a prime example of catering to local market conditions. Like most catalogers, it competes against traditional discounters in most product areas. Luria has particularly strong competition from nationals like K mart, Zayre/Ames, cataloger Service Merchandise and Wal-Mart.

The chain has fought against incursions from outside (it was established in Florida long before its competitors) by buttressing its image as a local operation, filling in markets, finding new product niches, upgrading its stores and, perhaps most important, reacting to its rapidly changing customer base.

One significant adaptation is Luria's assimilation of the booming Cuban population in southern Florida. Hispanics have been rapidly promoted into visible store and corporate-level posts, and most new management employees are required to be bilingual. Luria's product mix has also be adjusted to appeal to Hispanic shoppers, particularly in areas like jewelry, ceramics and juvenile products, where Hispanic tastes and needs are particularly divergent from the U.S. average.

Regional discounters, under pressure from national giants like Wal-Mart and the recharged Sears, are marshalling their defenses in an effort to avoid the fate of localized chains like TG&Y, one of the many regional discounters to fall victim to rampaging competition and changing market conditions. (DSN photo)

ShopKo, which last year passed $1 billion in sales, is a multi-region operator, but not yet a national chain on the scale of a Target, for example. After opening stores in Washington and Oregon, and with others planned for California, the company has taken its first steps into the national arena. However, it has staked its claim with high-fashion, upscale discount stores that feature name brands unavailable to larger, more prosaic discounters.

ShopKo, like Harts, has wheeled out a big gun in its new hypermarket, Twin Valu. Harts vice president David Godfrey noted, in reference to his company's Big Bear Plus stores, that "the only way to fight a hypermarket is with another hypermarket."

Both chains have been quick to experiment with the format, and ShopKo vice president Gene Bankers noted that the chain's familiarity with the Midwestern market made the plunge less of a gamble than it might appear.

The availability of certain brands is a key weapon in regional chains' arsenals. One supplier, who does sell to major national accounts, bemoaned his existence, saying that he had become a "Wal-Mart junkie." His (admittedly profitable) problem is that his business has become so tied to the needs of two or three accounts that he has lost the freedom to move within the market.

A major domestics supplier who deals only with regional chains and department stores noted that this strategy decreases his vulnerability to policy or merchandising switches. "If I lose a Gold Circle, it doesn't have a lasting effect on my business," he said. "If I lost a K mart, I don't know if I'd recover."

Rose's, the Southeastern discounter, is attempting to step up its access to products not normally available to its competitors, mainly Wal-Mart. It has streamlined its operations by concentrating on several departments, including home fashions, jewelry and apparel, and searched for new vendors. The chain is concentrating on better service and better products, including private label apparel, to differentiate itself from Wal-Mart.

Of course, private label is not a guarantee of success. Bradlees' use of the concept may have been a major contributor to its so-so performance in recent years and the eventual sale of a large part of the chain. The company is in the midst of redefining its competitive stance, as is fellow Northeastern regional chain Caldor.

Caldor, long a highly visible Northeast fixture, fell on hard times in recent years after its acquisition by May Department Stores. But the discounter apparently is fighting back with a new prototype that incorporates: front-end scanning, a consolidated consumer electronics/photo/records and tapes department with its own checkout, new high-impact fixturing in apparel, warehouse-type racking in outdoor products, and increased selling space for children's apparel.

Wisconsin's Prange Way, on the other hand, has reacted to national chains by concentrating on its upscaled apparel presentation. The discount arm of Prange department stores, the chain has developed in its local markets, becoming a dominant apparel retailer in most of the towns it services.

Bargain Town USA, the Alabama-based discounter, has isolated convenience as its main competitive weapon. "Our competitors . . . give up some shoppers due to lack of convenience," said company chief executive officer Jay Kline. With its mini-size (12,000 square feet) and pared-down selection, the chain can profitably enter markets too small to support larger nationals.

The young warehouse club industry has only one truly national chain, Sam's, and a regional, Price Club, that by dint of its massive success must be considered a national power.

However, other operations, like Indianapolis-based The Wholesale Club and Seattle's Costco, have been forced to establish themselves as quickly as possible in their respective markets against the time when their better-financed rivals invade their territories.

Both have settled on an execute-the-basics strategy, attempting to develop their markets quickly and become local favorites. Both have experimented with creative merchandising experiments, but the key to success in warehouse club retailing is rock-bottom pricing and most-wanted products.

Hills Takes a Different Tack

Hills, which like ShopKo is more of a "super-regional" operation than a purely regional one, has taken a slightly different tack than most of the others. Whereas the predominant strategy among regionals seems to be to find niches that nationals can't or won't address, Hills seems to have decided to become the Midwest's Wal-Mart before Wal-Mart invades its regions.

The company has established itself as the lowest-price provider of ladies' and men's apparel in most of its markets, and is sharply competitive in most hard lines areas as well. Hills has identified several niches, most noticeably women's, plus-size women's, jewelry and accessories, and men's jackets. On a price-only basis, Hills can be as effective as Wal-Mart, and it is well-established within its markets.

While most regionals have turned to soft lines to differentiate themselves, two Cincinnati-based retailers have taken quite two different approaches. Swallen's has turned its attention to furniture, CE, major appliances and sporting goods, featuring depth and selection not found at national discounters. Van Leunen's beefed up its sporting goods and sports apparel departments, then spun them off into a new specialty chain, All About Sports.

Clover, the Philadelphia-area retailer, has attempted to counter the larger chains by developing a high-fashion apparel image. With the first prototype open only six months or so, it is too early to judge success or failure.

The same holds true for Jamesway and TSS, two New York area discounters. Jamesway, the object of recurrent takeover rumors, has attempted to step up its fashion image, at least in home fashions, and to sharpen its prices. TSS, on the other hand, has gone back to the birth of discounting to test leased departments, beginning with CE, shoes, toys and auto.

S.E. Nichols, another New York area retailer which, according to one executive, has stuck to "offering the best product at the best possible price," continues to struggle.

Gee Bee, based in Johnstown, Pa., attempted to expand rapidly as a defensive measure, but appears to have foundered under the massive debt the expansion created. It recently filed for Chapter 11 bankruptcy protection.

And, Heck's, based in Nitro, W.Va., has pared its store count radically in an attempt to remain solvent. To date, that move has not been successful, but management maintains that the smaller chain can be competitive in its tiny coal-belt markets, most of which are too small for competitors to enter.

This special report has been compiled by *DSN* senior editors Ken Chanko and Peter Hisey, and associate editors Richard Halverson, Mary Ellen Kelly and Pam Krein, under the direction of editor Tony Lisanti and executive editor Don Longo. Projections on discount store sales were made by Richard Mount, president of Mount Economic Consulting, based on historical data developed exclusively by *DSN*. The section was designed and produced by senior desk editor Martha Gioumousis, desk editors Michael Vickerman and Dawn Wilensky, and graphic artist Karen Kikta, in conjunction with art director Bob Brokman.

BEST COPY AVAILABLE

Regional Analysis

Sector Downturns Insulate Economy

Full-Scale Disaster Averted by Mini-Recessions In Some Areas During Past 7 Years of Expansion

By Richard Mount
Special to DSN

The economy is slowing in 1989 as construction markets including housing, office and hotels continue to retrench. Defense spending is being reduced to limit the federal deficit, and state and local governments are cutting back planned spending because of revenue shortfalls.

Corporate America worries about this slowing in demand, is eternally cautioned by Wall Street economists that interest rates might increase, and realizes that the current, 7-year-old recovery is already the longest peacetime expansion. Fearful of another business downturn, businesses are trimming inventories, putting additional pressure on the economy.

Against this backdrop of fear, the economy remains sound and 1989 will be another year of modest gains in real growth. Improvements in capital spending, net exports and consumers who continue to buy at a moderate rate of growth will keep the economy advancing this year.

1990 remains a year in question as far as economic forecasting. By then, the current strength in capital spending and exports will no longer be enough to propel the economy forward. However, currently soft sectors, including non-residential construction, housing, energy and agriculture, should be advancing.

Inflation Key to 1990 Outlook

The key to the 1990 outlook may well be inflation. If price increases during the second half of 1989 do not escalate dramatically, interest rates will show little change, allowing for further gains, albeit modest, in the economy for 1990.

Those who count the seven years of gross national product expansion as a primary reason for an impending recession forget that most major sectors have undergone their own recession-like periods during the recent years of overall expansion, thereby preventing serious imbalances from developing.

Capital spending was weak through early 1985. Soft energy prices have harmed domestic energy production and exploration since early 1986. Agricultural output and farm income has been lackluster because of the high dollar and increased foreign competition. Women's clothing sales were soft in 1988 as styles were not acceptable. Construction has been declining since 1985 because of lengthened depreciation schedules, restrictions on tax deductions and higher interest rates.

The major growth market for the economy in 1989 will be capital spending and, to a lesser extent, exports. Manufacturers' operating rates are currently 84.5 percent of capacity, high enough to cause shortages in many basic industries. U.S. manufacturers must either increase capacity or lose market share, especially to foreign producers.

Other favorable factors for capital spending include industrial production—up 5.0 percent from a year ago, and corporate profits—up 20.6 percent in the same period. Current surveys of real capital spending suggest a gain of 4 percent to 5 percent. As the year continues to remain strong, these estimates will be raised to between 5 percent and 6 percent.

In spite of the low unemployment rate, low dollar and high operating rates in manufacturing, inflation remains well behaved.

Last year, the consumer price index was up 4.4 percent from December to December, the same pace as in 1987. Many expect inflation to sharply accelerate in 1989, causing the Federal Reserve Board to tighten and business to contract.

We do not subscribe to this theory. Inflation remains controlled because foreign competition is at its most intense of all the post-war years. With foreign producers willing to cut margins to maintain or increase market share, domestic producers have less wage and price flexibility than in the past. The index is apt to increase 5.1 percent in 1989 and 5.4 percent in 1990.

National Forecasts

	1987	1988	1989*	1990*
Percent Change of Major National Indicators				
Real Gross National Product	3.4%	3.9%	2.6%	2.1%
Real Disposable Income	1.7	3.8	2.9	1.9
Consumer Price Index	3.6	4.2	5.1	5.3
The Housing Market				
Housing Starts (000 Units)	1,617	1,488	1,440	1,350
Resales (000 Units)	3,526	3,594	3,465	3,225
Retail Sales				
Total ($ Billions)	$1,521.4	$1,629.2	$1,730.2	$1,834.0
Percent Change	6.0%	7.1%	6.2%	6.0%
Full-Line Discount Store Sales				
Total ($ Billions)	$84.9	$87.4	$90.3	$93.1
Percent Change	2.0%	2.9%	3.3%	3.1%

*projected

Source: DSN; Mount Economic Consulting

The rapid gains in the consumer and producer price indexes in the opening month of this year are not sustainable. Wage rates, the major costs to most sectors of the economy, are up only 3.4 percent from a year ago. This moderation in wages in the face of a 4.9 percent unemployment rate, down from 5.5 percent a year ago, shows that management remains determined to prevent costs from escalating in an increasingly competitive world.

Inflation will be the critical test for a continuation of the expansion this year and next. Higher inflation will cause the Fed to tighten policy, driving up rates. We believe that inflation is headed slightly higher this year, and possibly in 1990 as well, but not enough to bring on a business contraction.

Interest Rates to Rise

Interest rates followed an unusual pattern in the second half of 1988: short-term rates increased while long-term rates showed almost no change. The Federal Reserve slowed the growth of the money supply, increasing short-term rates, but continued moderation in inflation kept long-term rates from rising in step with short-term rates.

As inflation rises slightly in 1989, long-term rates will increase about 50 basis points. Short-term rates, however, will rise slightly less than long-term rates because they have already advanced. With higher inflation in 1990, rates will continue to increase.

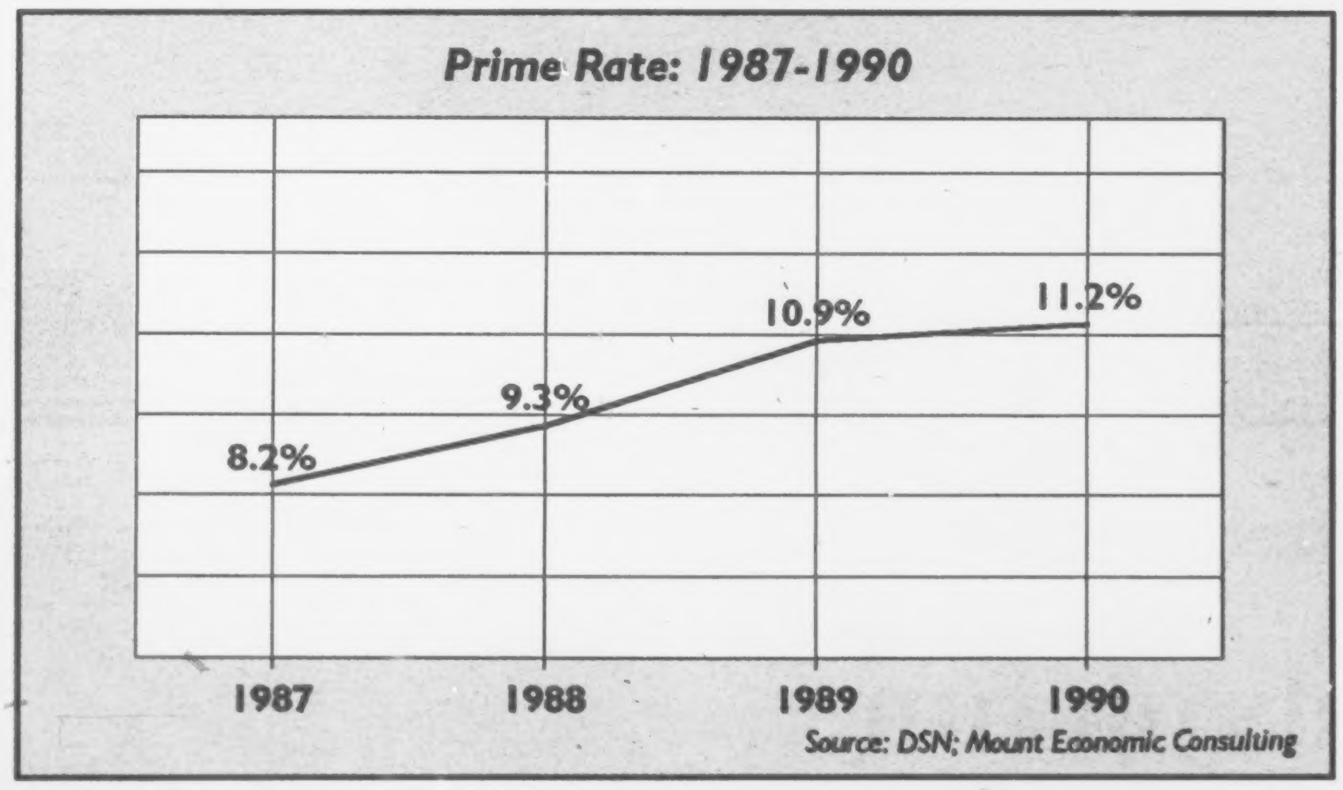
Housing Starts Crash

The housing industry continues to decline. Starts were off 8.2 percent last year. The biggest decline was in structures off five or more units, typically apartments. These units were overbuilt earlier in the economic recovery, pushing vacancy rates up. In addition, changes in the tax laws lowered investor returns.

Weakness in housing in 1989 will be more concentrated in single-unit starts. Mortgage rates will rise, new home prices are high, and pent-up demand has been satisfied. For 1989, total starts will be off 3.2 percent, with single-unit starts declining 5.3percent. In 1990, total starts should be down an additional 5 percent.

Resales should decline somewhat more than total new housing—falling 3.5 percent this year because the new multi-unit housing market appears to be stabilizing and because resales ad-

(Continued on page 90)



Source: DSN; Mount Economic Consulting

High mortgage rates and high prices will depress single-unit housing starts by 5.3 percent this year as the housing industry continues its decline. For discounters, weakness in starts and resales will hurt sales of home furnishings.

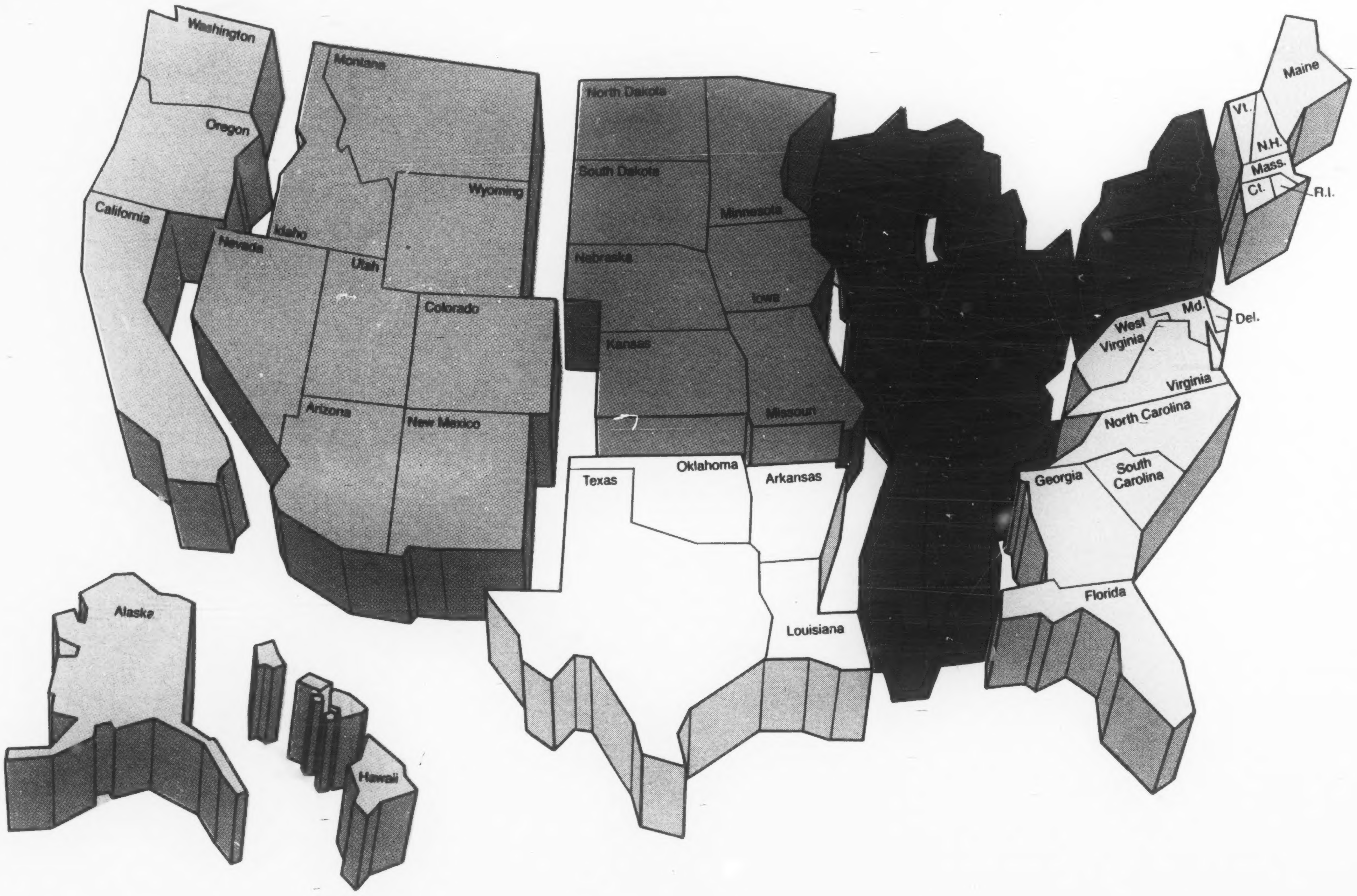
IMRA '89: Regional Analysis

Discount Store Sales Growth by Region

Pacific		Mountain		West North Central		West South Central		[illegible]		South Atlantic		New England	
Year	Percent Change	Year	Percent Change	Year	Percent Change	Year	Percent Change	[illegible]	[illegible]	Year	Percent Change	Year	Percent Change
1987	2.0%	1987	1.3%	1987	2.1%	1987	1.4%	[illegible]	[illegible]	1987	2.2%	1987	2.4%
1988	3.4	1988	2.4	1988	[illegible]	1988	2.7	[illegible]	[illegible]	1988	3.1	1988	2.8
1989*	3.6	1989*	3.1	1989*	3.4	1989*	3.2	[illegible]	[illegible]	1989*	3.5	1989*	3.2
1990*	3.3	1990*	2.9	1990*	3.3	1990*	2.9	[illegible]	[illegible]	1990*	3.3	1990*	2.8

*projected

Source: DSN; Mount Economic Consulting



Sector Downturns Insulate Economy from Full Recession

(Continued from page 83)

vanced 2.9 percent in 1988, allowing for a steeper decline in 1989. For discount store sales, weakness in starts and resales will impact sales of home furnishings.

Retail Dollars Up, Units Flat

Retail sales growth will be up 6.2 percent this year, compared to a 7.1 percent rise in 1988. While dollar volume will be up because of higher inflation, unit sales will rise only 2.1 percent compared to 4.1 percent in 1988.

With the slower economy, real disposable income will increase 2.9 percent, compared to a 3.8 percent gain last year.

Last year, the softness in retail sales was concentrated in camera and apparel stores. This year, weakness in housing markets will cut into appliance and furniture sales. Clothing sales should stage a comeback, however, with a return to more acceptable styles for women.

Discounter Sales Strengthen

Discount store sales, based on *DSN* estimates and definitions *(see note below)*, increased 2.9 percent in 1988. Sales should be slightly stronger in 1989, up 3.3 percent. This increase will be due to higher inflation; unit sales will show no change. Discounters face greater pressure from higher labor costs now that the unemployment rate is down to 4.9 percent nationally and under 3 percent in many major metropolitan markets. Rising health insurance rates will add to the cost of doing business this year and next year.

The slower real growth in the economy expected for this year and next will be a small plus for discount chains. With slower income gains, consumers should shift some of their spending to discount stores, away from higher-priced department and specialty stores.

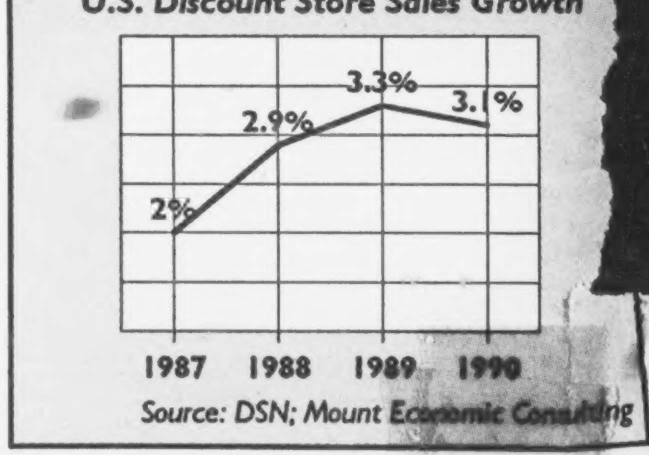
Discount Store Sales by Region
(In $ Millions)

	1987	1988	1989*	1990*
United States Total	$84,900	$87,400	$90,310	$93,100
New England	6,384	6,564	6,773	6,964
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
West North Central	8,346	8,600	8,896	9,189
South Atlantic	13,117	13,530	14,007	14,468
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
West South Central	10,799	11,091	11,442	11,777
Mountain	4,551	4,658	4,804	4,944
Pacific	7,734	7,997	8,281	8,556

*projected

Source: DSN; Mount Economic Consulting

U.S. Discount Store Sales Growth



Source: DSN; Mount Economic Consulting

Richard Mount is president of Mount Economic Consulting, a firm specializing in construction, regional and retail trade economics. For discount store sales, this report utilizes the definition and history of full-line discount stores developed by Discount Store News. *These stores can be considered multi-departmental, self-service, high-volume, low-margin, with central checkout and no one predominant product. Prior to establishing Mount Economic Consulting, Mount was manager of housing, construction and regional economics for Merrill Lynch Economics. He has been on the forecasting committees for Dow Jones and the Housing Market Report.*

BEST COPY AVAILABLE

Regional Analysis:

New England

Connecticut • Rhode Island • Massachusetts
Vermont • New Hampshire • Maine

Larger Ames Threatens Regionals

IMRA
1 9 8 9

New England may never again be a haven for regional discount store chains.

The region, which has been the birthplace of some of the more venerable chains in discount retailing—Zayre, Ames, Ann & Hope, Bradlees, Caldor—is one of few in the country that continues to support a potpourri of regional competitors. However, the New England competitive climate is expected to become stormy with a possible shakeout, which has already victimized such chains as Mars.

The acquisition of Zayre by Ames is the most immediate threat to the New England regional discounters.

For years, limited geographic overlap among Ann & Hope, Stuarts, Rich's, Mars and others allowed these small chains to prosper. Zayre's recent weakness and the lack of a serious threat from a national powerhouse like Wal-Mart or Target has kept these discounters protected somewhat.

Prior to the Ames acquisition of Zayre, there was no single retail powerhouse dominating the market. K mart's impact on the regionals here has been marginal compared to its dominance in other areas.

The Ames/Zayre combo, however, has the potential to become for New England what Wal-Mart has been to the Southern tier of the United States.

A recently completed study of discounters by New York-based analysts Salomon Brothers indicated that Ames accounted for over 25 percent of general merchandise, apparel and furnishings (GAF) sales through discount stores in 1987. K mart stores in the region also represented about one-fourth of GAF sales during that year. Zayre was responsible for 28 percent of sales. If Ames can successfully turn around the lackluster performance of Zayre stores, it could easily gain well over 60 percent of market share in New England. This would make the long-term future of regionals bleak.

In addition to the emergence of a dominant discounter, labor remains a primary concern for general merchandise retailers, fast-food chains and any other business that draws upon the dwindling minimum wage employee population. Surging specialty store competition, especially in affluent areas like Boston and suburban Connecticut, have also taken their slice of both the sales and the labor pies.

None of the chains interviewed plan to open more than a single store in the New England market in the foreseeable future, with the exception of Stuarts, and K mart, both of which scheduled two openings. High costs of labor and real estate combined with a rising affluence in the urban centers are among the factors bringing some businesses to this decision.

Bradlees plans call for a single store opening this month in Meriden, Conn.; no other New England store openings were announced. Caldor will not open any stores in New England this year. Ames, which closed one Zayre in Massachusetts and one in Vermont since last year, has no plans to open any stores in New England until February of 1990, when it will open a single store in Woodsville, N.H., according to Bill Roberts, Ames spokesman. In contrast, a total of 15 other new Ames stores are scheduled to open in other parts of the country this year.

Ames does not have plans to open any other New England stores, "since after the Zayre chain was acquired, there has been no need to penetrate this market any further."

While Roberts said the shrinking labor pool did not influence Ames' decision not to open any New England stores until next year, he did acknowledge that labor is an issue. "We pay an average of $4.20 for entry level store employees in other parts of the country. We have to pay an average of $5 in New England," Roberts said.

Labor was a factor in the move of Zayre administrative staff from Framingham, Mass., to Syracuse, N.Y.

"There is a very good base of people in Syracuse. Right now 108 people are there; by July there will be an additional 112 people," Roberts said.

William Ellis, K mart Eastern regional manager, added, "the availability of help in New England is worse than even last year," and that the problem is compounded by higher minimum wage rates in Maine, Rhode Island, Connecticut and Massachusetts. "We're beyond the baby boomers. The teenagers and people in their early 20s just don't exist here. And as high as the minimum wages are, we have to pay still more [to attract workers,]" Ellis said.

K mart expects to hire a second personnel coordinator for the New England market this month to work on employee recruitment and training.

"We hired a coordinator to recruit at high schools and other agencies during April of last year, and we're looking for a second person," he said. "We now do a better job of training. Before you put them out there on the firing line, you have to prepare them otherwise they get frustrated and quit. And we can't afford to have that happen," Ellis explained. K mart also added a new dental plan in January in the hopes of attracting and keeping more employees.

Prospects for population growth in New England are dim with the exception of New Hampshire and, according to some estimates, Rhode Island. The double-digit population surge in New Hampshire has been commuting straight to Boston, and this trend is expected to continue, even among the minimum wage pool.

"We're competing with the technology fields for help," said Ellis. "There are a lot of unskilled labor positions available. Technology hires clerical workers, secretaries and other people who might otherwise go to retail."

Larry Wortzel, professor of marketing at Boston University, said retail competition continues to heat up. Specialty stores, already jamming New England malls, will continue to proliferate as the cost of store leases becomes prohibitive to retailers that require more space. Ultimately, a shakeout among the specialty chains is likely. "The New England market is at least saturated if not overstored. There might be room far north—the town of Burlington, for example, is growing like crazy. There is a mini-invasion of specialty stores, but I'm not sure the population will be able to support them all."

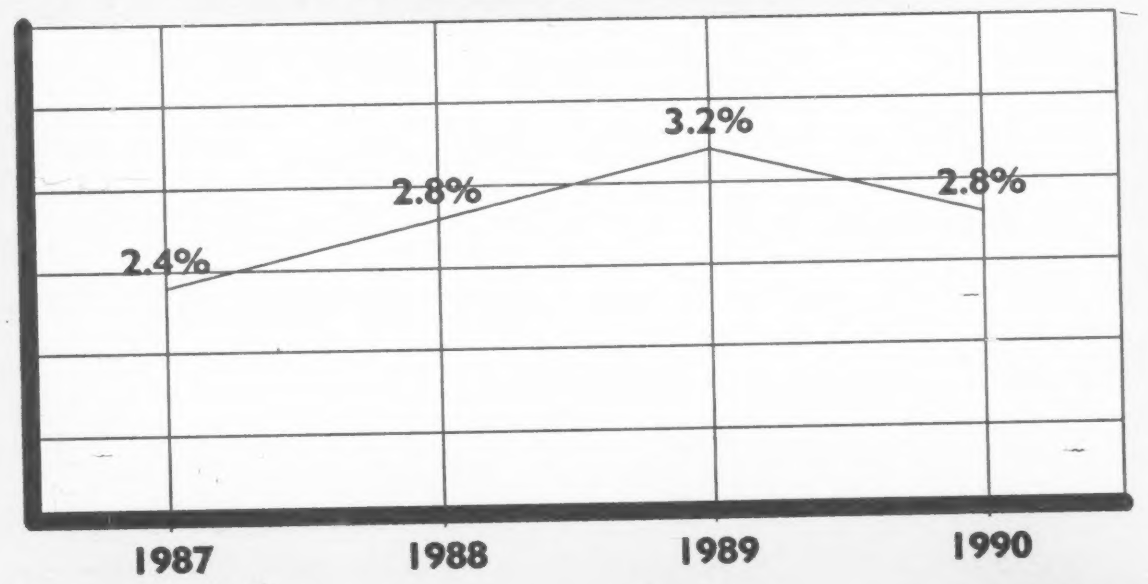
The purchase of Filene's Basement by May Department Stores will also change competition for apparel sales in New England, Wortzel suggested.

"May is pulling Filene's down into middle market retailing. As Filene's expands, it will eat into discount store and specialty store soft good sales. With May, Filene's is willing and able to cut its prices, especially since Filene's Basement has led the way as a strong discounter competitor."

New England Snapshot

The New England economy will expand slightly less than the nation in 1989 as defense spending is cut back and high home prices reduce construction activity. Labor shortages will worsen, even with slower gains in employment. Advances in financial services will be moderate, although the computer industry will remain strong.

New England Discount Store Sales
(Percent Change 1987-1990)



State	Employment Percent Change Year Ago	Retail Sales Percent Change 1987-1988
Connecticut	1.7%	11.7%
Maine	3.6	9.6
Massachusetts	2.2	8.6
New Hampshire	3.2	13.1
Rhode Island	1.0	7.6
Vermont	4.2	10.9
Region:	2.2%	10.9%

*projected

Source: DSN; Mount Economic Consulting

New England Region: Discount Store Count

Chain	Stores	Chain	Stores
Discount Dept. Stores		Discount Dept. Stores	
Zayre (Ames)	78	Miller's	2
Ames	77	Nu Star's	2
Bradlees	75	Catalog Showrooms	
K mart	68	Service Merchandise	23
Caldor	58	Consumers Distributing	12
Rich's Dept. Stores	21	R & R	8
Stuarts	21	Save Rite	6
Lechmere	16	Paysaver	5
B.D.'s Stores	14	Prime Value Mart	4
Mars	13	Treisman's	4
The Fair Company	6	Murray's	3
Ann & Hope	6	Warehouse Clubs	
Globe	5	BJ's	10
Railroad Salvage	4	Makro	1
Apex	3	Price Club	1
Fishers Big Wheel	2	Total:	548

Source: DSN research

Lean Population Limits Retail Growth

The Arcade, the oldest enclosed mall in the country, houses specialty stores and is the dominant retail center in Providence. (DSN photos)

PROVIDENCE, R.I. — The biggest city in the smallest state is like being at the World's Series but nobody has a ball to set the game in motion.

Like team members, all of the basics are there. Providence is near the major urban market of Boston. It offers new residents and businesses comparatively low-cost real estate. A new railroad station has been built and a convention center and hotel complex are underway. A new downtown retail center is being negotiated . . . but the city lacks a core industry. Without a major industry to draw workers who make and spend wages, nobody in business is scoring a home run.

Despite all the attention the city has received from consumer media, the greater Providence market—which basically constitutes the whole state—is not shaping up to be the best place to open a new store, or at least not yet.

About four years ago, there was strong population growth in much of Rhode Island as real estate prices in Boston became prohibitive and people decided to locate either north (to Nashua or Manchester, N.H.) or south to Providence. The sudden influx of households with high disposable income pulled retailers into the market, especially in the Warwick area.

Now, however the move of Boston workers to Rhode Island has peaked, according to local industry experts. What remains is a market where there are not enough people to run—much less shop at—the menagerie of retailers that flocked to the market.

Gail DalPiana, chairman of the Retail Department at Johnson & Wales college, said there has been modest growth in commercial banking business, in the state, but so far there has not been enough jobs to attract the people who will shop at all of the market's stores.

"Within the last three or four years, a street in Warwick [Route 2] that was already home to two major malls, now has an additional 15 strip centers. Every product, every price point is now available along that road. The vacancy rate must be 20 percent to 30 percent, and still more retail centers are being constructed," DalPaina said.

Discounters in this Warwick market include Zayre (Ames), K mart, Lechmere, Caldor and regionals Ann & Hope and Apex. Specialty stores like Highland electronics have also joined the competition for sales dollars.

Aram Garabedian, vice president of Bliss Properties, a shopping center management and development company, believes the market is likely to remain overstored for sometime to come, even if development were to come to a halt.

"I know Providence. I've lived here all my life. We don't grow fast. The state is overstored. We don't anticipate any large population growth. The city of Providence itself has lost some 100,000 people since the 1950s. The state has always hovered just below the 1 million population mark," Garabedian noted.

While the prospects for retailers are basically non-existent, he was quick to note that the new convention center could open a new door to business because the local economy is diversifying.

"We were once very dependent on the jewelry industry. It is to our credit that we have diversified," he said. A limited number of high-tech companies have come to Rhode Island and financial businesses are also on the rise.

The lack of a resident population has kept the downtown Providence retail market lean; only Zayre is within city limits. In fact, there is no major department store in the city; the dominant retail center in the city is The Arcade, the oldest enclosed mall in the country, which houses specialty stores.

In some ways, Providence simply looks like a good place to do business in contrast to neighboring alternatives. Real estate costs, while initially inflated when Boston workers moved to the area, have settled back down. The city also has a good transportation network. DalPiana also said the state government is working toward removing some of the obstacles to the entry of new industries.

All that needs to happen, some economists said, is an industry to give it an identity.

Steven Malin, senior economist and director of regional economics at the New York-based forecasting firm The Conference Board, described Providence as, "a city that almost *has* to be an emerging city. It's a rebound city, an old-line industrial city that was hit hard in the past. In terms of space and cost considerations it should be a natural success."

Like Nashua, N.H.—which has been repeatedly cited as among the best places to live in the country and as an economic boom town—Providence is just over an hour outside of Boston city limits, which is easily accessed by major road arteries.

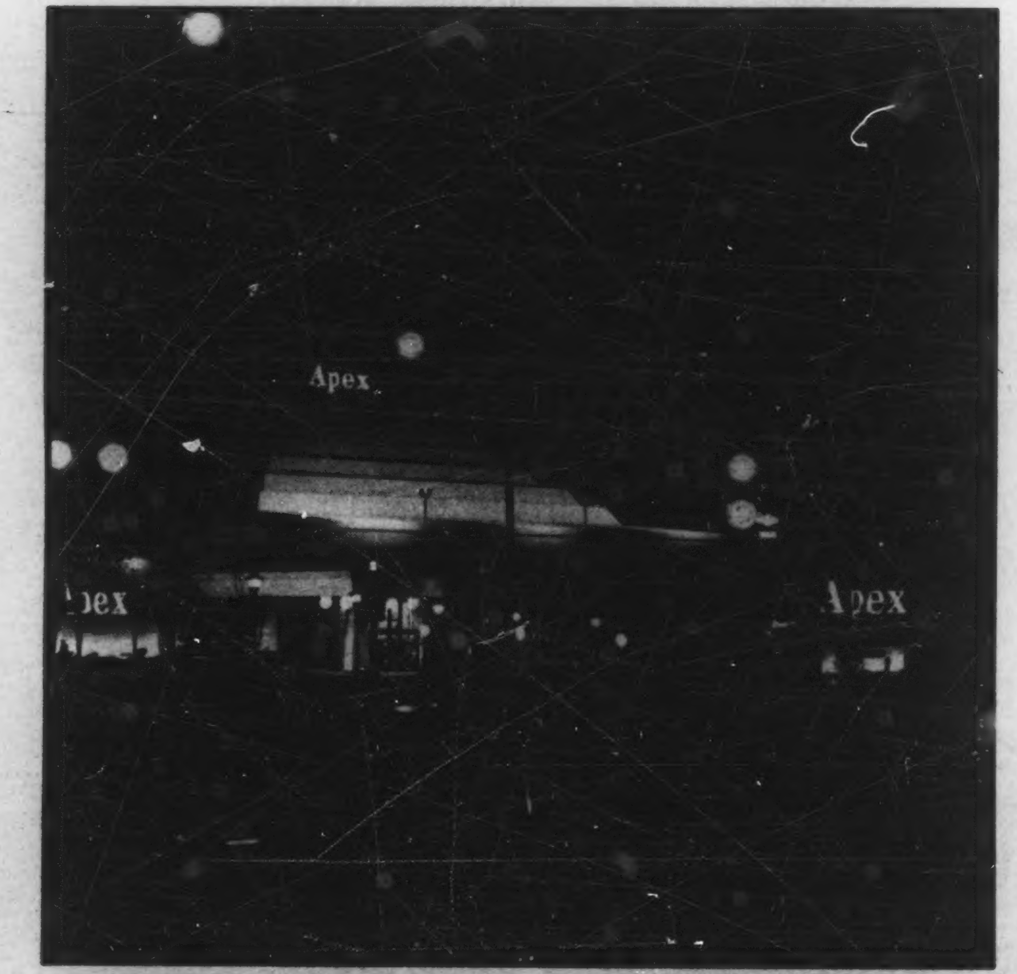
"What the city is missing is a specific industry associated with it. It needs a hook. New England is too rich an area for it not to happen. The city is positioned between two pricey spots—Boston and suburban Connecticut. Almost nobody can afford to move into Connecticut or metropolitan Boston due to real estate prices," Malin said.

Roughly half of the more than $12 billion total effective buying income of the Providence/Pawtucket/Woonsocket Metropolitan Statistical Area (SMA) is spent on retail sales.

Discount Store Count: Providence/Woonsocket/ Pawtucket SMSA

Chain	Stores
Discount Dept. Stores	
Zayre	7
K mart	4
Caldor	3
Ann & Hope	2
Apex	2
Stuarts	2
Ames	1
Fishers Big Wheel	1
Lechmere	1
Mars	1
Catalog Showrooms	
Save Rite	3
Murray's	2
Warehouse Clubs	
BJ's	1
Total:	**30**

Source: DSN *research*



Some of the discounters in this Warwick market include Zayre (Ames) as well as regionals Ann & Hope and Apex.

Stuarts Treads Competitive Waters

HOPKINTON, Mass. — Stuarts Department stores might not be getting along swimmingly, but it is at least treading water in the sea of New England discounter competition.

Having jettisoned some sources of its administrative and selling expenses, the regional chain was able to improve its gross margins and profits during 1988, despite basically flat sales.

Net earnings were up 50 percent to $833,000 during 1987. (Net operating income for 1987 had been a loss of $317,000, but accounting and tax rate changes added $902,000 to the bottom line resulting in a net earnings gain of $585,000.)

Harry Kohn, Stuarts president, inspires staff at the celebration of its newest store opening in New Bedford, Mass.

President Harold Kohn said the keys to survival for regional chains like Stuarts stem from their ability to be flexible, to react quickly, and to search out more opportunities for special merchandise buys. Kohn was quick to note that these advantages only exist "if everything is properly executed."

The apparel departments, in particular, represent the best opportunities to skirt competition and earn margins, added Kohn. Buyers from smaller chains can take a more hands-on approach because it is easier to see and react to what is going on at store level.

"Regional chains are in a position where management and buyers can be in stores more frequently to see the stores physically, not just the numbers," he said. Buyers can witness firsthand what is moving and what is not and can immediately adjust their buying.

"The MIS at national chains can tell them what's happening with the stock at the total chain, but it's harder to execute a targeted program for individual stores," he explained.

Likewise, ads for regional chains can be more timely and allow for later selection of the merchandise put on the ad. "In terms of promotions, regional discounters can choose merchandise later in the buying cycle," Kohn noted because the physical movement of product to stores frequently takes less time, "if executed properly."

Similarly, opportunistic buys are more plentiful for small chains, Kohn said. Overruns, irregulars and other merchandise lots that constitute "special purchases" are frequently available in small quantities. "Because we are a smaller chain we can make use of opportunistic purchases that would be unavailable or too small for national chains," Kohn explained.

Kohn candidly recognized the disadvantages facing the regional chain, not the least of which is less buying power than national chains. Producing quality advertising also poses a problem for regionals.

The regional chains advertising budget is, of course, smaller due its lower sales volume, forcing it to cut corners on the quality of the advertising circulars. As Kohn outlined, "The professionalism of media output suffers because there is less money, less staff and less technology affordable," to regional chains.

There was a time when regionals were relatively safe from competition because they could select store sites in areas that were too underpopulated to support a second store, much less a *larger* second store.

Now, however, the predatorial environment of discount retailing prompts chains to open stores across the street from one another. The overstoring of most larger markets has lured national chains to develop downsized prototypes and delve into these regions.

Stuarts, however, faces few competitors when compared to most other regions of the country. If nothing else, Stuarts is one of few chains in the United States which does not share any markets with Wal-Mart or Target.

K mart, Ames/Zayre, Caldor and Bradlees are among the chains that are unfriendly neighbors to Stuarts' 21 stores in Massachusetts, New Hampshire, Rhode Island, Vermont, Connecticut and Maine.

Stuarts closed an unprofitable store in Brunswick, Me., at the end of last year, but opened a store in New Bedford, Mass., in March.

Brunswick was a market Stuarts shared with both a Zayre and an Ames store. Stuarts is in other highly competitive markets including boom town Nashua, N.H. The Nashua market is home to two Zayres (now operated by Ames), a Rich's Department Store, three Bradlees and a Lechmere. In neighboring Manchester, N.H., there is a K mart, Lechmere, Rich's, Zayre and B.D.'s Stores.

The company plans to open another two stores within its trading area by year-end. The locations were not disclosed at presstime.

Stuarts Department Stores

Headquarters: Hopkinton, Mass.
Number of stores: 21
Average store size: 55,000 square feet
Sales (1988): $140.37 million
Net earnings (1988): $833,000
Percent change sales: 0.5%
Percent change earnings: 50.9%

Source: Stuarts Department Stores

A remodeled Stuarts in Nashua, N.H.: The regional discounter boosted margins and profits last year despite flat sales.

(DSN photos)

> *Apparel departments, in particular, offer the best opportunity to skirt competition and earn margins. Buyers from smaller chains can take more of a hands-on approach because it is easier to identify and react to what is going on at the store level.*

INFANTS
TODDLERS
SLACKS

BEST COPY AVAILABLE

Regional Analysis:

Middle Atlantic

Pennsylvania • New York • New Jersey

Sam's Spells Trouble for Regionals

The economic vitality of the Middle Atlantic states—New Jersey, New York and Pennsylvania—is expected to mirror that of the nation.

"There is nothing special about the mid-Atlantic region," said Stan Duobinis, director of regional economic forecasting for the WEFA Group, Bala Cynwyd, Pa. "The region tends to do about the national average," he said. "I don't expect a recession."

IMRA 1989

Retail sales will increase by 6.6 percent to $271.6 billion for the three-state region, Duobinis predicts. That compares with an 8.6 percent gain in 1988 to $254.6 billion.

General merchandise sales, excluding the expected slowdown in autos and appliances, should fare somewhat better, he said.

Inflation to Edge Upward

But with a projected inflation rate of 5.1 percent, compared with 4.1 percent in 1988, the real growth will be even smaller than indicated, Duobinis said, or about 1.5 percent after adjustment for inflation.

WEFA predicts that personal income will grow 1.6 percent this year, down from the previous year's increase of 3.1 percent.

Non-manufacturing jobs will increase by 1.5 percent this year, down from 2.8 percent, WEFA predicts, although factory jobs will increase by 0.2 percent in 1989 after a flat year in 1988.

The jobless rate is running at 4 percent, which economists view as full employment. That compares with 4.3 percent last year.

With unemployment running as low as 2.6 percent in parts of northern New Jersey, a labor shortage is beginning to hamper the growth of New Jersey and metro New York. In markets such as Pittsburgh, Philadelphia, Harrisburg, Buffalo and Albany, however, the labor shortage hasn't yet begun to restrict growth.

A tight labor market, though, is putting pressure on wages, Duobinis said. "Expect to see good, solid wage increases in 1989."

The minimum wage increase isn't an issue for retailers here, with fast-food places paying $5 to $6 an hour in Philadelphia and New York, he said.

Housing starts will slump by 7.2 percent, WEFA predicts, following a 4.4 percent decline last year.

Population growth continues to lag the nation, with the growth rate holding at last year's 0.2 percent.

Discount store sales will rise by 2.8 percent to $11.64 billion in 1989, said economist Richard Mount in his 1989 outlook for *DSN*. That compares with a 2.5 percent gain in 1988 to $11.33 billion. In 1990, they should increase by 2.5 percent to $11.94 billion.

In 1987, the three states accounted for 15.3 percent, or $25.63 billion, of the nation's general merchandise sales, *Sales & Marketing Management* reported in its 1988 rankings. That equaled its share of the U.S. population, 15.3 percent, or 37.7 million.

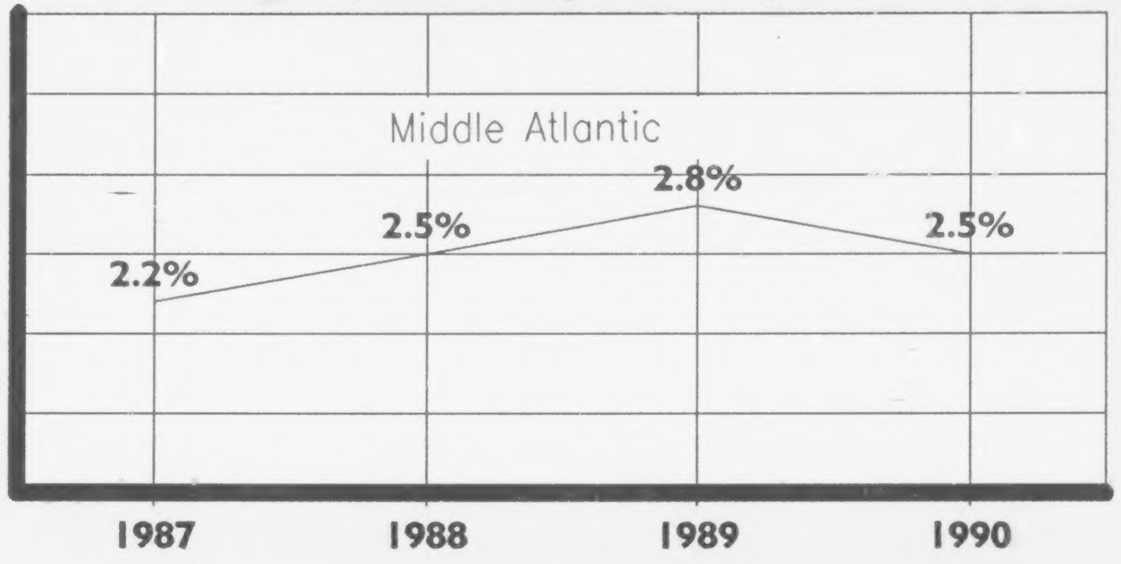
Middle Atlantic Snapshot

The Middle Atlantic states are slowing rapidly. Employment growth for the region, at 1.9%, lags the national average of 2.3%. This gap could widen through 1990. Defense spending is being reduced, high new and existing home prices in New Jersey and the New York City metropolitan area are reducing demand; employment prospects in the financial community are not as good as a few years ago; the non-residential construction market is overbuilt and a further contraction in construction employment will result.

New York state will need to reduce spending or increase taxes to balance its budget. Pennsylvania has become the fastest growing state in the region; it has a higher concentration in durable goods manufacturing and energy production.

Middle Atlantic Discount Store Sales

(Percent Change 1987-1990)



State	Employment Percent Change Year Ago	Retail Sales Percent Change 1987-1988
New Jersey	1.9%	8.6%
New York	1.7	9.4
Pennsylvania	2.1	7.3
Region:	1.9%	8.6%

*projected

Source: DSN; Mount Economic Consulting

Robert Hayes, corporate economist for K mart, is a bit more optimistic than most economists, anticipating that the region will perform above the national average.

For discounters, a major development is the pending move of Wal-Mart's Sam's Wholesale Club chain into the Middle Atlantic just as regional chains show further signs of stress.

Wal-Mart is expected to open a Sam's Wholesale Club in Atlantic City, N.J., this summer, followed by a unit in northeast Philadelphia next year and another in Wilkes-Barre, in northeast Pennsylvania.

The entrance of Wal-Mart into the mid-Atlantic spells further trouble for regional chains, said Hayes, K mart's corporate economist.

Hayes gave Wal-Mart credit for having a "very smart and dangerous market penetration strategy."

"Warehouse clubs take the heart of hard line goods sales," Hayes said. "Obviously, they are going to take business away from K mart."

But the major impact will fall on small regional chains, such as Jamesway and Clover, Hayes predicted. "The total retail market is not going to grow fast enough to support a major entrant into the market," he said.

In an economic climate with close to zero sum gain, a new entrant into the mid-Atlantic market is bound to produce some losers among small chains.

Debt Clobbers Gee Bee Parent

As Wal-Mart prepares to test the Northeast waters with Sam's, Glosser Brothers, parent of 18-unit Gee Bee, has declared Chapter 11 bankruptcy. The Johnstown, Pa.-based chain apparently fell victim to rising interest rates and the debt load from a leveraged buyout.

In addition, S.E. Nichols, New York, "is losing money [from 43 stores] and not showing any growth," said Jack Seibald, retail analyst for Salomon Brothers, in a March report on discount chains. Moreover, Seibald predicted a slowdown in the growth of Secaucus, N.J.-based Jamesway, which has 98 stores, because "the company cannot continue to support its recent expansion rate with internally generated funds."

In the past year, TSS, Brooklyn, N.Y., closed two of its four auto and home units and is subleasing excess space in its 12 full-line stores to pare them down in size.

Heck's, struggling to survive in Chapter 11, closed two of its three stores in the southwest Pennsylvania.

Bradlees, Braintree, Mass., failed in its attempts to sell 19 stores in southern New Jersey and Philadelphia because of problems in assigning their leases. So instead of raising money to pay down LBO debt, Bradlees will continue to operate them.

On the other hand, Hills Department Stores, Canton, Mass., increased its presence in the region by acquiring six of the 11 former Gold Circle stores in upstate New York, helping to raise its regional count to 69.

Regionally, K mart remains the dominant discounter, operating 211 units in the three states. Its market share of 1987 GAF (general, apparel and home furnishings) sales led in all three states, Seibald noted in his report. Its share was 6.6 percent in Pennsylvania, 3.5 percent in New Jersey, and 2.3 percent in New York.

In New Jersey, Bradlees was the next highest at 3.2 percent, followed by Caldor, 1.9 percent, and Jamesway, 1.4 percent.

In New York, Ames/Zayre held a combined 2.1 percent share, Caldor, 1.6 percent, and Hills, 0.7 percent.

In Pennsylvania, Ames and Zayre held a 2.6 percent market share, while Hills followed closely with 2.5 percent.

Middle Atlantic Region: Discount Store Count

Chain	Stores	Chain	Stores
Discount Dept. Stores		Others	4
K mart	211	**Catalog Showrooms**	
Ames	142	Consumers Distributing	73
Jamesway	98	Service Merchandise	28
Hills	69	Present Co.	20
Caldor	53	David Weis	18
Bradlees	52	Best Products	17
Family Dollar	49	Brand Name Sales	15
Dollar General	39	Jewelcor	6
Zayre (Ames)	35	**Warehouse Clubs**	
S.E. Nichols	23	BJ's	8
Clover	22	PACE	3
Gee Bee	18	Price Club	2
Fishers Big Wheel	17	Others	2
Laneco	17	**Hypermarkets**	
TSS	14	Carrefour	1
Alexander's	11	Total:	1,067

Source: DSN research

BEST AVAILABLE COPY

Labor Woes Slow Economy to a Crawl

NEW YORK — Ask an economist about the New York metro economy and the labor crunch will dominate the conversation. And, discount retailers are not alone in trying to find ways to cope with a worsening labor shortage.

For example, because it can't hire enough qualified workers here, American Express hires natives of Ireland and India to work in their home countries, exporting computer analysis chores to employees abroad, said Rosemary Scanlon, chief economist for the Port Authority of New York and New Jersey. Data processing employees in both countries are well-educated and speak English, she said.

Prudential Insurance, Newark, N.J., also sends data processing work to employees in Ireland. "We'll see more of it," Scanlon predicted.

The labor shortage—along with the high housing prices that are partially responsible—is a major factor restraining growth of the metro New York economy.

Financial Sector Takes Hit

Another was the stock market crash of October 1987, Scanlon said. Although a feared recession in the city never happened, New York lost 17,500 financial and banking jobs in the aftermath, and office leasing took an immediate hit, she said.

The U.S. Commerce Department defines the metro region as New York City, Long Island, two other New York suburban counties and eight counties in northern New Jersey.

The New York metro region may claim to be No. 1 in population, but its economic growth rate, particularly in retail sales and jobs, takes no prize.

In 1988, "the regional economy expanded at its slowest pace in five years," Scanlon noted in her 1989 report on the regional economy. Growth in private sector jobs screeched to a halt in New York City and fell dramatically in its New ~~York~~ and New Jersey suburbs, she said. Office space and housing starts plummeted throughout the region.

Part of the problem stems from the flight of corporations from New York City, such as the move of JCPenney to Dallas. In addition, corporations with offices in suburban Westchester County, N.Y., including Texaco, Nestle, General Foods and IBM, have been slashing middle management staff as they get leaner and meaner.

In addition, the region has lost manufacturing jobs, particularly in northern New Jersey and on Long Island.

Little Job Growth Foreseen

In 1989, Scanlon predicted near-flat job growth throughout the region, with perhaps zero in New York City and job gains of less than half of normal in the suburbs. In the '90s, job growth—considered a key indicator of economy vitality—will slow to 0.4 percent a year from 1 percent in the '80s, Scanlon said.

The region's unemployment rate averaged 4 percent last year, well below the national average of 5.6 percent, Scanlon noted in her report. Economists consider 4 percent as full employment. In the suburbs, the rate fell to as low as 2.6 percent in Bergen County, N.J.

"New Jersey's economy is now significantly affected by widespread labor shortages, which are holding down job gains at the entry and lower-skilled levels in retail and sevice sectors," Scanlon noted.

For the region, overall retail sales increased 8.5 percent in 1988, Scanlon noted. But much of that apparent strength came from booming business in New York City tourist attractions, theaters, restaurants and bars, which resulted in a 9.7 percent increase.

Sales increases for general merchandise retailers in New York City, however, were closer to 2 percent to 3 percent, she said. After adjustment for area inflation of 4.7 percent, unit sales probably fell, she said.

Because of the labor crunch, retailers were desperate for help last Christmas, the economist said. One department store chain paid $8 an hour for temporary workers during the Christmas season, Scanlon said, while another paid $10 an hour.

Fast-food restaurants pay $6 or more an hour. McDonalds has been busing workers from the Bronx, a New York City borough, to posh Westchester County for three years. Abraham & Strauss, a department store chain, is busing workers from Brooklyn, also to Westchester, Scanlon said.

Long Island added only 200 retail jobs in 1988, compared with 5,100 in 1987, said Pearl Kamer, chief economist for the Long Island Regional Planning Board.

Regional retail sales of non-durable goods have been flat for quite a while, Kamer said. In 1988, sales of non-durable goods rose just 1.8 percent to $14.80 billion, from $14.53 billion, she said. That was only fractionally better than the 1.4 percent gain in 1987.

A loss of aerospace defense jobs has hurt Long Island, she said.

On a positive note, New York City remains the strongest office market in the nation, the Port Authority's Scanlon said. It is not an overbuilt market, such as Houston, Denver, Boston and San Francisco, she said.

In discounting, though, "the city is remarkably underrepresented by discount stores," she said. Once thriving discounters, such as Kleins and May Department Stores, have disappeared from the Bronx and Brooklyn.

Regional discounters based here are shrinking. Alexander's closed two of its 13 stores over the past year. TSS, formerly TSS-Seedman's, has closed two of its home and auto stores and is subleasing space in its 12 full-line stores to such retailers as Lionel Leisure, which operates a 40,000-square-foot Kiddie City toy store within TSS' Bronx store.

And S.E. Nichols, although based in New York City, operates none of its 23 stores in the metro market.

Area Still Without a Hypermarket

The metro market offers just 128 discount outlets, including 59 catalog showrooms, three warehouse clubs and no hypermarkets, to its 15.5 million residents.

Long Island's infamous traffic congestion partially explains why the metro market has no hypermarket. In 1986, Carrefour, the French hypermarket, paid $18.2 million for 67 acres of land in Brookhaven, N.Y., that was zoned for retail use.

But local residents, protesting about feared traffic tieups from Carrefour, prevailed upon the Brookhaven zoning authorities to block the hypermarket by rezoning the land for residential and office use only. Carrefour responded with a $25 million lawsuit in an attempt to overturn the decision.

But because of the dispute, Carrefour opened its first U.S. hypermarket in Philadelphia, in February 1988, rather than in metro New York.

Among discount retailers, Consumers Distributing heads the list, with 48 catalog showrooms in the metro region, including 11 in New York City.

Caldor commands the lead in metro New York in full-line discount department stores, with 20 units. K mart has nine and Bradlees seven.

Price Club operates one warehouse club on Long Island and is tentatively set to open another there sometime in the fall. BJ's Wholesale Club operates one unit in northern New Jersey and another on Long Island.

In New York City's five boroughs, K mart operates two stores on Staten Island, and Alexander's, which emphasizes apparel over hard lines, runs two stores in Manhattan, two in the Bronx and one in Brooklyn.

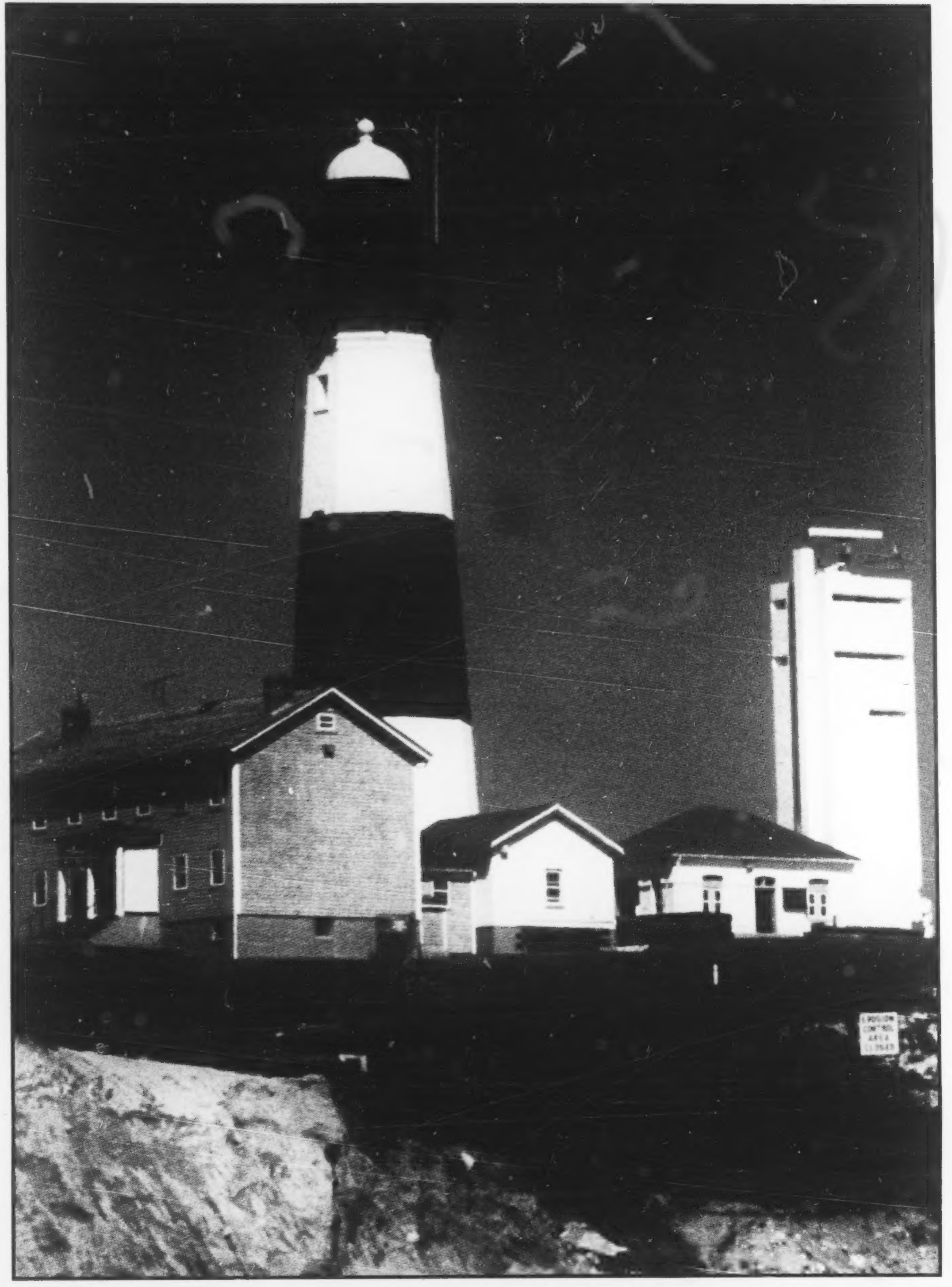
TSS is another major discounting factor within New York City, operating three units in Brooklyn, and one each in the Bronx and Queens.

On Long Island, TSS operates nine stores, compared with Caldor's eight.

Because of the affluence of Long Island, specialty retailers such as The Wiz and Newmark & Lewis in CE, Toys "R" Us, Marshalls in apparel, and upscale department store-anchored malls dominate the retailing scene, to the detriment of full-line discounters. K mart, for example, has never seen fit to open a store there.

In specialty discounting within New York City, Lionel Leisure last year opened Manhattan's first discount toy store. After it followed with two more Kiddie units in the Bronx (including the one in space leased from TSS), Toys "R" Us signed a letter of intent to build its first Manhattan unit just down 34th Street from the Kiddie City store.

New York City long has been a haven for consumer electronic specialty chains such as The Wiz, J & R Music World, Newmark & Lewis and Crazy Eddie (until it ran into financial problems in the past year).



While Long Island's affluence and rapid growth have been a beacon for specialty retailers, national full-line discounters have steered clear of this area.

Discount Store Count: Metro New York Area*

Chain	Stores
Discount Dept. Stores	
Caldor	20
TSS	14
Alexander's	11
K mart	9
Bradlees	7
Jamesway	2
Century 21	2
Ames	1
Catalog Showrooms	
Consumers Distributing	48
Service Merchandise	11
Warehouse Clubs	
BJ's	2
Price Club	1
Total:	**128**

**Includes stores within the metropolitan area of New York City and four suburban New York counties: Nassau and Suffolk, on Long Island, and Rockland and Westchester; and two northern New Jersey counties, Bergen and Passaic.*

Source: DSN research

TSS Contracts to Stay Alive on L.I.

Seedman's
Fabulous Fall Sale
Great Savings in All Departments
Escalator UPPER LEVEL
ZEREX

TSS, Bronx, N.Y.: Although 65 percent of TSS' sales are in hard lines, the chain is shifting its merchandising mix towards soft lines and apparel. (DSN photo)

Oddly enough for a discount store chain, TSS' primary market niche is the wealthiest metro market in the country, the Nassau and Suffolk counties that comprise New York's Long Island suburban market. Median family income in the area was $45,512 in 1987. That compares with an average of $25,888 in the United States.

BROOKLYN, N.Y. — TSS (formerly TSS-Seedman's) is demonstrating that small, regional discounters can operate in special market niches as the giants extend their reach.

TSS, which stood for Times Square Stores, runs 12 full-line discount stores, averaging 150,000 square feet in size, plus two 15,000-square-foot home and auto stores.

In addition, it operates 17 units of Finders Keepers, its off-price apparel chain, in New York and New Jersey.

The company employs a total of about 2,875 people.

Oddly enough for a discounter, its primary market niche is the wealthiest metro market in the country, the Nassau and Suffolk counties that comprise New York's Long Island suburban market. Median family income in 1987 was $45,512, *Sales & Marketing Management* determined in its 1988 Survey of Buying Power.

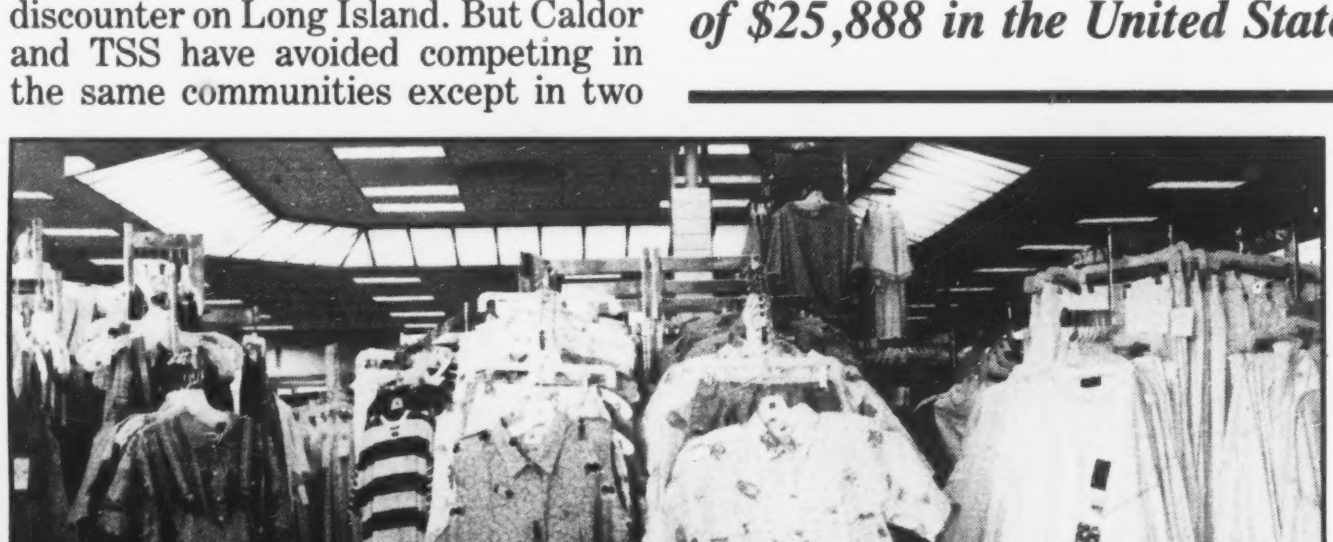
That compares with a U.S. average of $25,888, *S&MM* said. The next highest was the Bridgeport/Stamford/Norwalk/Danbury market in Connecticut, at $42,751.

On Long Island, a densely populated region, 44 percent of families enjoy incomes of $50,000 or more.

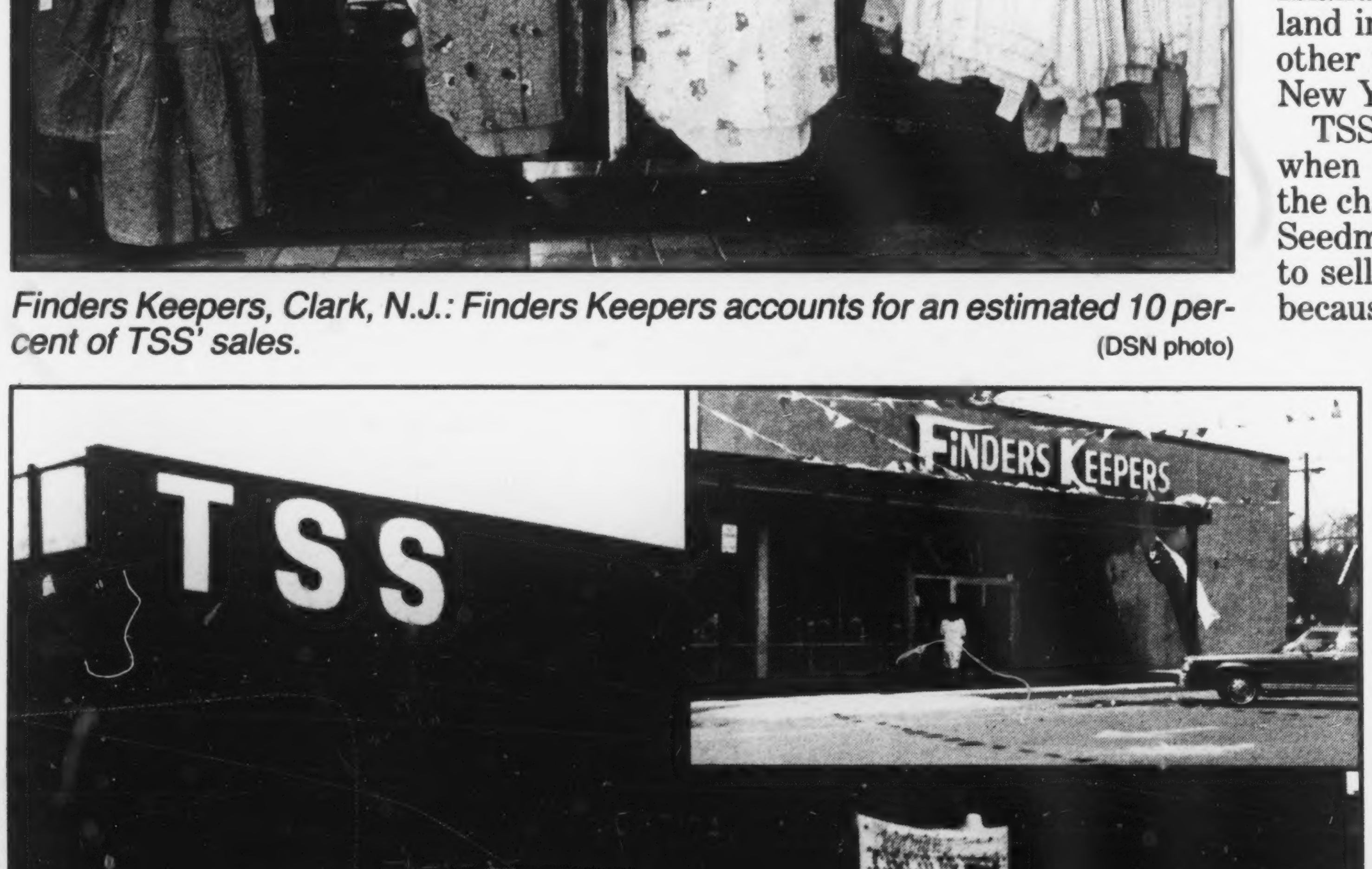
Given such high incomes, department store malls and specialty retailers have thrived. Discounters are conspicuous by their absence.

K mart, for instance, avoided Long Island. Bradlees flew right over Long Island when it expanded southward during the early 1970s into the Philadelphia and Virginia markets.

Caldor, with eight units, is the other discounter on Long Island. But Caldor and TSS have avoided competing in the same communities except in two cases, Levittown and West Babylon.



Finders Keepers, Clark, N.J.: Finders Keepers accounts for an estimated 10 percent of TSS' sales. (DSN photo)



While TSS continues to expand Finders Keepers, its 17-unit off-price apparel chain, the discounter has no plans to add any full-line stores. (DSN photos)

Julius Kasinitz, TSS chairman and chief executive officer, worked at Caldor from 1968-1981, where he was vice president for operations. Before coming to TSS, he was with Almy's, a New England department store chain. His other retail experience includes stints at the now defunct S. Klein Department Stores and the Two Guys chains.

Of TSS' 12 stores, nine are on Long Island, two others are next to Long Island in Brooklyn and Queens and another is in the Bronx, all boroughs of New York City.

TSS changed hands in October 1987 when founder George Seedman sold the chain for an estimated $50 million. Seedman backed out of a previous deal to sell TSS to Price Club, reportedly because he learned of plans to convert the stores to warehouse clubs. Seedman founded the company in 1929.

The new owners are an investment group headed by Chicago's Jay Pritzker family, whose other holdings include the Hyatt Hotel chain. The group holds 81 percent of the stock, and an Employee Stock Ownership Plan holds the balance of 19 percent.

The new owners dropped the Seedman's part of the chain's name. In addition, they sold six stores in Puerto Rico for an estimated $20 million to help pay off bank debt and closed two of its smaller home and auto stores.

In other consolidation moves, TSS is leasing excess space in its stores to reduce their size to around 120,000 square feet, thereby creating mini-malls within stores.

TSS
Headquarters: Brooklyn, N.Y.
Number of stores: 14
Average store size: 150,000 square feet
Sales (1989): $250 million (projected)
Earnings (1989): NA
Percent change sales: NA
Percent change earnings: NA
NA—not available *Source: TSS*

As an example, TSS leased 40,000 square feet of its Bronx store to Lionel Leisure for a Kiddie City discount toy store. That still left 180,000 square feet in the former Korvette's store, Kasinitz said.

In a sense, TSS is reverting to the earliest days of discounting with its strategy of leasing deparments, rather than trying to operate them directly. In another sense, though, TSS is right in step with the hypermarket policy of leasing shops to flesh out the one-stop shopping concept.

The latest example is its agreement with Great Bear Automotive Centers, Merrick, N.Y., to lease auto service centers in 11 stores.

TSS previously offered only limited tire and battery service, but the agreement with Great Bear calls for full service. TSS will continue to sell tires and batteries, with Great Bear handling the mounting and installation.

In other leasing agreements, TSS also leased space to J. Baker Shoes, for shoe departments; Brick Church, for consumer electronics; and Trans World Music, for records and tapes.

Among the leased departments are men's and boys' wear, drugs, jewelry, records and tapes, home improvements, pets, cards and cameras.

In 1987, 35 percent of store sales were soft lines; 65 percent were hard lines. Sales per square foot averaged $87. All stores have point-of-sale scanning equipment.

In keeping with its interest in its Finders Keepers chain, TSS is attempting to shift the merchandising mix toward women's and and children's apparel, domestics, and housewares, Kasinitz said.

Rather than trying to expand its full-line store count, TSS is concentrating on remodeling existing stores, Kasinitz said. It already has revamped four and expects to redo three more in 1989 and the remaining five in 1990.

The remodeling reflects the new emphasis on apparel, domestics and housewares, Kasinitz said.

The two remaining home and auto stores also have undergone a shift in merchandising. Automotives now account for 30 percent of sales, down from 60 percent, Kasinitz said. More home, domestics and tabletop goods have taken up the slack.

Although no more full-line stores are on the drawing board, TSS may add more new home and auto stores that would reflect that new merchandising ratio, Kasinitz said.

For the moment, TSS is concentrating on expanding its off-price apparel chain. It opened one Finders Keepers unit last December and the latest, store No. 17, in South Plainfield, N.J., opened in February.

As a private company, TSS declines to release information about profitability. Kasinitz estimated that 1989 sales will total about $250 million. Finders Keepers will account for about 10 percent of that, he said.

Regional Analysis:

East North Central

Ohio • Indiana • Illinois
Michigan • Wisconsin

Success Stories Outnumber Failures

The East North Central region is one of the most urbanized in the United States, with major population centers like Chicago, Detroit, Cleveland, Columbus, Milwaukee, Cincinnati and Indianapolis accounting for most of its residents.

IMRA
1 9 8 9

Together, the five states (Illinois, Indiana, Michigan, Ohio and Wisconsin) accounted for over $16 billion in discount store sales last year, with that figure expected, according to *DSN*/Mount Economic Consulting research, to rise to $16.8 billion in 1989. Both figures are the highest among the nine regions in the nation.

Discount store sales growth is expected to total 3.4 percent this year, slightly above the U.S. rate of 3.3 percent, and the region's growth is expected to equal or better the U.S. rate in the coming years. In 1990, the rate is expected to be 3.3 percent, vs. 3.1 percent for the country as a whole.

Wisconsin has been the strongest state in retail growth (11.4 percent last year), but the region as a whole has been one of the strongest in the United States, although it has never posted the boom-type figures turned in during recent years by the South Atlantic and New England areas.

Overall, the region accounted for $512 billion in effective buying income in 1987, the highest gross total in the United States, but the region also had a high population. Retail sales accounted for $243.3 billion of that, second to the shopping spree-prone South Atlantic region. Illinois shoppers spent the most in retail stores, $66 billion, and Wisconsin shoppers spent the least, $26 billion, probably because there are a lot less of them.

Region's Frugality Slows Down Sales

Statistically, the region conforms to the stereotype of Midwesterners as conservative, thrifty folks. Illinois' Lake County, which contains several exclusive Chicago suburbs, was the most profligate market within the region, and it only ranked 54th in the United States in per household retail sales, at $19,602. Flint, Kalamazoo, Ann Arbor and Saginaw, Mich., all ranked in the top 80, and Detroit (102) and Chicago (170) finished well out of contention.

Chicago is the third-largest retail market in the country, and Detroit is the sixth largest. Cleveland (20th), Cincinnati (32), Indianapolis (34), Columbus (35) and Milwaukee (39) also ranked in the top 50 markets. As general merchandise markets, all were slightly more highly rated.

On the whole, the region is more susceptible to the vagaries of the national economy than the more economically diverse regions like the mid-Atlantic and the Northeast. The East North Central relies on a dichotomous mixture of heavy industry (autos, steel) and agriculture and both are prone to protracted slumps.

On the other hand, the migration southward that stripped the Midwest of a good chunk of its population seems to have dried up, and cities like Detroit and Chicago have been undergoing something of a renaissance. The turnaround of the auto industry has turned Detroit from a ghost town into a thriving, if still below average, market, and Chicago's wealthy suburbs are in a boom cycle. However, the auto industry appears to be slowing down, and business as a whole in the region has not been overwhelmingly buoyant.

According to a March report issued by the U.S. Department of Commerce, respondents in the fourth district (Cleveland) are optimistic about the coming year. While they project slowing growth rates in most parts of the region, as well as slowing auto sales, they point to higher steel and heavy machinery prices and at-capacity production industries (trucks, ball bearings, steel) as harbingers of a relatively strong year.

Strong production has had an indirect impact on the shortage of retail help, however, forcing discounters to pay more for workers. According to the report, however, "non-automotive retailers have been surprised by strong sales since last fall," but some are worried that higher interest rates could stall growth after the spring.

In the seventh district (Chicago), prospects looked even better. Again, car sales have slumped, creating production cuts and layoffs, but most hard industries continue to prosper and retail sales have been strong. However, the growth at retail has not been across the board. According to the report, "same store sales in February (ranged) from about even with a year ago to double-digit gains," perhaps reflecting the increasing competition in the region.

ShopKo a Super-Regional Power

Retailers seem to be doing very well in the Midwest. Despite the recent Chapter 11 filing by Gee Bee and the sale of Gold Circle stores to Hills and Target, most discounters in the region have done very well of late. ShopKo and Prange Way, both based in Green Bay, Wis., have grown rapidly—ShopKo to the point where it has to be considered an incipient national retailing power. ShopKo has solidified its position in the Midwest with its Twin Valu hypermarkets, at least two of which will be up and running in the Cleveland area by year-end.

Hills, based in Massachusetts but operating mainly in the Midwest, has also been a success story over the past year. The chain has seemingly established itself as the Wal-Mart of the Midwest, in anticipation of a full-scale invasion of the region by the national power.

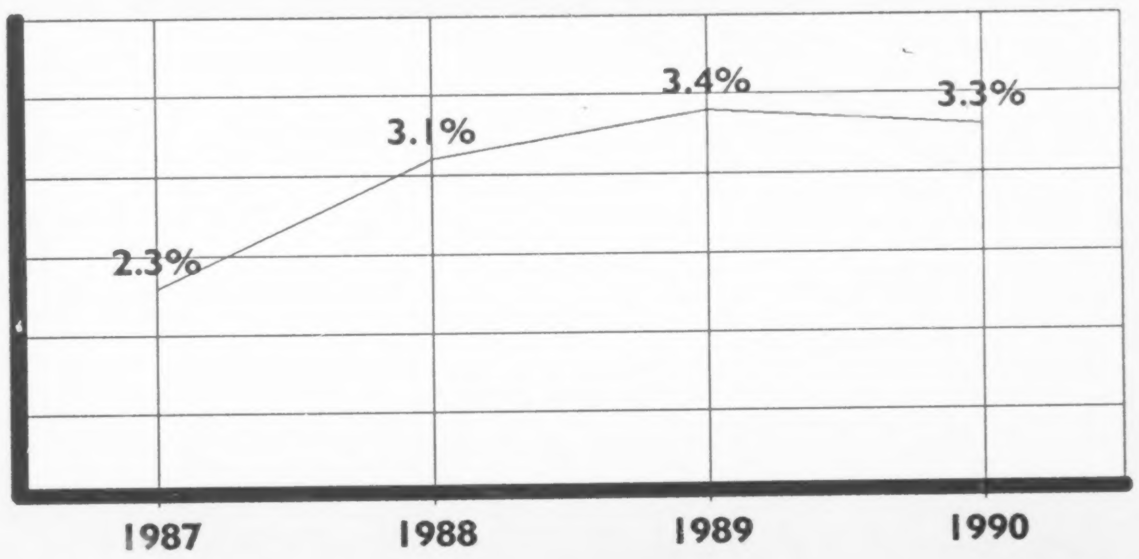
Another regional operator, Fishers Big Wheel, has solidified its position as a small market power with a new prototype and aggressive merchandising and pricing.

Wal-Mart continues to expand rapidly in Chicago's outer suburbs and Wisconsin. K mart has introduced its newer prototypes in Ohio and Michigan, and Target, which moved into K mart's Michigan back yard, has expanded its Midwest presence.

East North Central Snapshot

The East North Central states should be one of the stongest regions this year and again in 1990, if an economic downturn can be avoided. With the current recovery in industrial production and capital spending, these states will post above average rates of growth in retail and discount store sales. Michigan is the soft spot now, as auto production will be slowing . A sharp contraction is not in the offing for auto sales, but higher interest rates, slower income gains, and recent strength in auto sales has satisfied pent up demand for the moment.

East North Central Discount Store Sales
(Percent Change 1987-1990)



State	Employment Percent Change Year Ago	Retail Sales Percent Change 1987-1988
Illinois	2.5%	4.6%
Indiana	4.1	5.0
Michigan	2.7	5.9
Ohio	2.8	4.1
Wisconsin	3.2	11.4
Region:	2.9%	5.6%

*projected

Source: DSN; *Mount Economic Consulting*

East North Central Region: Discount Store Count

Chain	Stores	Chain	Stores
Discount Dept. Stores		**Catalog Showrooms**	
K mart	482	Service Merchandise	55
Wal-Mart	109	Best Products	23
Hills	92	K's Merchandise	11
Zayre (Ames)	72	E.H. Tepe	10
Fishers Big Wheel	69	Witmark	9
Target	60	A.J. Foland	7
Ames	59	Jewel Mart (David Weis)	5
Meijer	51	W. Bell	5
Venture	45	Lancaster Sales	4
Quality Stores	43	U.S. Merchandise	3
ShopKo	38	Dart (Arthur's)	2
Harts	30	**Warehouse Clubs**	
Pamida	24	The Wholesale Club	14
Prange Way	24	Warehouse Club	10
Schottenstein (Valu City)	24	Sam's	6
Val Corp.	14	BJ's	4
J.A. Conley	10	PACE	4
Click	9	Makro	2
Swallen's	9	**Hypermarkets**	
ALCO	8	Big Bear Plus	5
Shoppers World	8	Auchan	1
Silverman Bros.	8	Twin Valu	1
Others	37	Total:	**1,506**

Source: DSN *research*

Newcomers Add Sizzle to Hot Market

CHICAGO — Chicago is both understored and overstored; thriving and solidifying.

For instance, *The Chicago Tribune* estimates that retail square footage has expanded by some 20 percent over the past four years, and will probably continue to grow at a similar rate, about 5 to 7 percent, over the next three or four years.

On the other hand, Professor Louis W. Stern, a marketing lecturer at Northwestern University's Kellogg Graduate School of Management, said flatly that Chicago is "overstored."

They both may be right. Urban Chicago, which is heavily stocked with Venture, K mart, Zayre, Marshall Field and a host of other retailers, may well be overstored in certain areas, as is the case with many of the city's major suburbs.

However, Cook County (mainly, urban Chicago) has only 12 square feet of retail selling space per resident, vs. a national average of about 15, and several suburbs are below that figure, according to *Tribune* marketing manager Bruce Kramer.

In contrast, relatively affluent suburbs like Du Page and Lake Counties boast 25 square feet to 27 square feet of shopping space per capita. With the blitz by consumer electronics superstore retailer Silo last fall (14 stores and 11 more within Marshall Field department stores), Bloomingdale's entry into the downtown scene (also last fall), and the recent opening of an Auchan hypermarket on the city's perimeter, the retail market is becoming increasingly competitive.

"The hypermarket will have to take consumers away from existing retailers," said Northwestern's Stern, adding that, with the latest developments in power specialty stores and hypermarket formats, mass retailing should probably be referred to as "massive" retailing in the future.

The consumer electronics market has been particularly hot in Chicago over the last year. Apart from the Silo invasion, Highland Superstores has been growing, Montgomery Ward's Electric Avenue outlets have been successful, and Best Buy is rumored to be looking at the market. This year will also see the debut of Sears' Brand Central stores in Chicagoland.

There may be a bloodbath coming.

> ***Wal-Mart is in the process of ringing the city in the outer suburbs, and is already a major player there. As it continues to open stores, it will put pressure on both K mart and Venture, and even more on Zayre, which recently closed several stores.***

Major players, in market share order, include Service Merchandise, Radio Shack, Sears, Highland, Venture, Montgomery Ward, K mart, Fretter, JCPenney, Zayre (now owned by Ames) and Polk Bros., according to a *Tribune* market study. Fretter is reportedly under pressure, and others will probably follow in 1989.

Marshall Field ranked only 12th in market share and nearly dead last in converting shoppers into buyers, but that will probably change as Silo becomes more established.

Fashion apparel is another growth area, with traditional department stores like Field and Carson Pirie challenged by the media circus created by Bloomingdale's opening. Bergner stores, basically a secondary market retailer, is also strong in the area, and has just made a $20 a share bid to take over Carson Pirie Scott.

Home center superpowers like Builder's Square dominate Chicago's booming building supply market, which is in the process of heavy gentrification. Housing costs are extremely high in downtown Chicago, and the practice of rehabilitating existing structures is both aesthetically and financially rewarding.

Wal-Mart is in the process of ringing the city in the outer suburbs, and is already a major player there. As it continues to open stores, it will put pressure on both K mart and Venture, and even more on Zayre, which recently closed several stores.

City Unkind to Warehouse Clubs

The city has also proved to be highly resistant to the warehouse club concept. The Warehouse Club failed miserably, as did American Wholesale Club, and BJ's has had a long, hard road to profitability.

Chicago is the third-largest market in the United States, with a population of 6.2 million, after New York and Los Angeles. It has the second-largest black population in the U.S. (about 1.5 million of the city's residents) and contains the country's fifth-largest concentration of Hispanics.

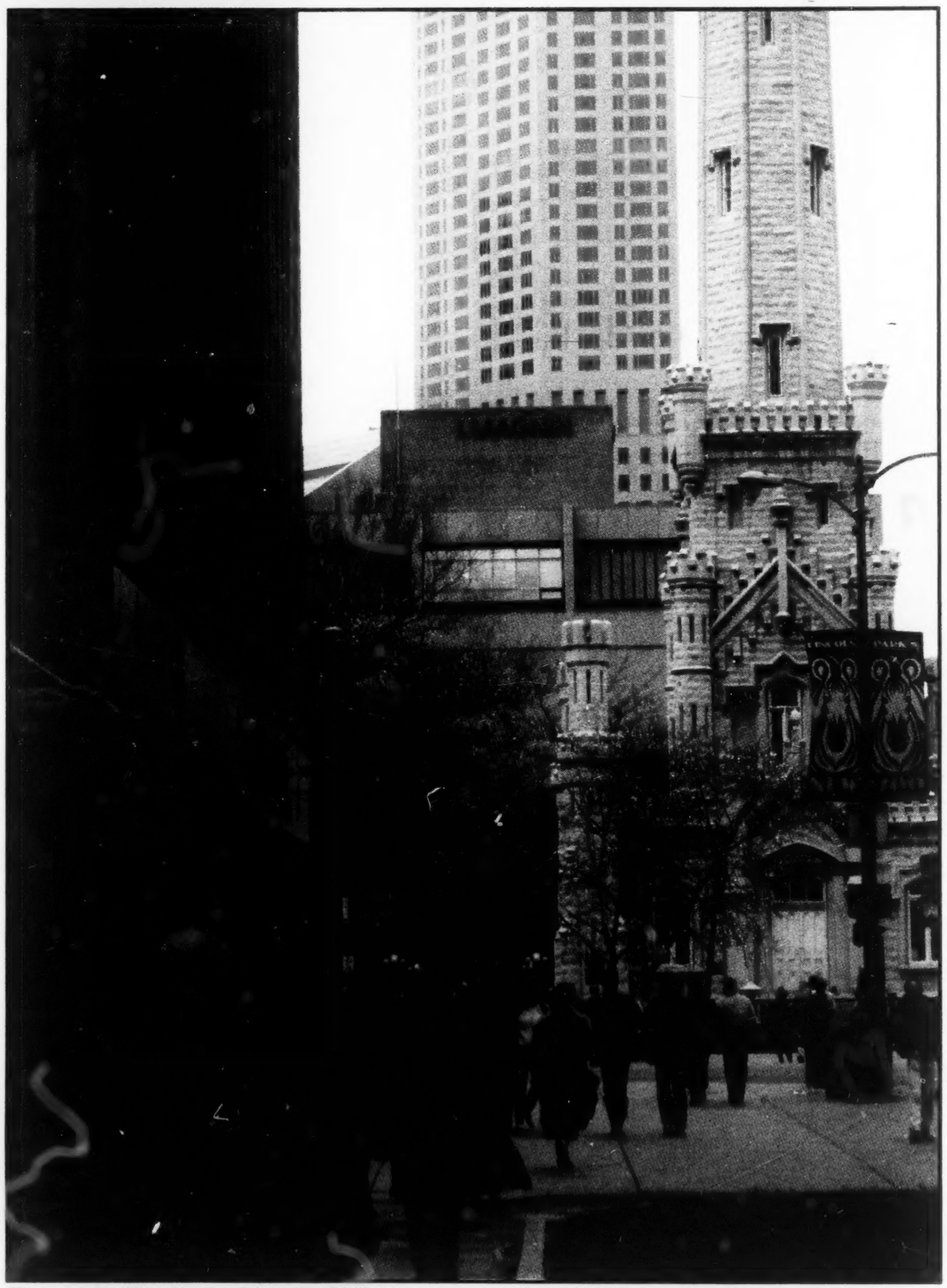
Support is lent to the understored theory about Chicago by its relatively poor standing in per household retail sales. Chicago is third in the country in total retail sales, about $38 billion, but only 170th in per household retail sales, less than $17,000 per household.

However, it appears that inner Chicago is undergoing something of a renaissance. In recent years, an exurban migration has boosted mall sales in the suburbs at the expense of the inner city. That seems to be turning around somewhat, as gentrification has attracted new retailers. North Michigan Drive, which Chicagoans are promoting as the "Rodeo Drive of the Midwest," has become home to Bloomingdale's, high-end specialty retailers, several luxury hotels and may soon host the ultra-hot Nordstrom department store.

The net result, according to *The Chicago Tribune*, should be a sharp increase in retail sales in the Chicago MSA from $52.4 billion in 1987 to $78 billion in 1992. Per household retail sales are expected to rise to $25,600 from 1987's $17,800.

Those totals will be bolstered by increases in the city's booming tourist and business visitor industries. Some 3 million trade show attendees flood the McCormick Center each year, and another 7 million tourists visit Chicago. Together, they spent over $5 billion in 1987, and that figure is expected to rise sharply.

Over the next 10 years, Cook County's population is expected to shrink somewhat, but average household effective buying income will more than double. The suburban counties (Lake, DuPage, Will, Kane and McHenry) will average about 13 percent growth.



The gentrification of inner Chicago, coupled with a booming tourism business, have turned North Michigan Avenue into a mecca of high-end specialty stores.

According to the *Tribune's* Kramer, local shopping within the city should improve over the next few years, due to a combination of an influx of young professionals and the gradual rehabilitation of older retail plants.

Shoppers at regional and super-regional megamalls have become both less common and less loyal over the past two years. Local and neighborhood retailers seem to have siphoned off those shoppers.

However, the *Tribune* reports that malls to the north of the city, in Lake County and on the Wisconsin border, have been drawing significant numbers of shoppers who formerly drove south toward Chicago, a disruption of usual traffic patterns.

To date, downtown Chicago has not benefited much from the abandonment of regional malls. That should change, however, as the inner city develops its more rundown physical plants, and new and exciting retailers move in.

Unlike the strong home improvement market, home fashions retailing is in disarray. Formerly strong market presences like Polk Bros., Scandinavian Design, John M. Smyth, and Colby's are in a state of flux, in some cases closing stores, and only the updated Pier 1 seems to be doing well.

The revamped Sears may return to its former dominance in this market, but it appears, according to the *Tribune*, that there is plenty of room, particularly given the high rehab rate, for an innovative retailer along the lines of IKEA to make an impact here.

Overall, it appears that while Chicago proper may be understored, it is a strong and very competitive market. The closing of several Zayre stores has perhaps created a vacuum at the lower end of the market, but on the whole, newcomers will have a difficult time attracting customers in the downtown area. Growth potential is mainly focussed in the wealthier suburbs, including understored counties like Kane and McHenry.

Discount Store Count: Chicago SMSA

Chain	Stores
Discount Dept. Stores	
K mart	36
Zayre	26
Venture	25
Wal-Mart	3
ALCO	2
Catalog Showrooms	
Service Merchandise	17
W. Bell	5
Warehouse Clubs	
BJ's	3
Sam's	2
Warehouse Club	2
Hypermarkets	
Auchan	1
Total:	**122**

Source: DSN research

Wholesale Club Beats Midwest Jinx

INDIANAPOLIS — Regional membership warehouse retailer The Wholesale Club has finally beaten the Midwest jinx.

After showing a year-end profit for the first time since its founding, The Wholesale Club is now planning to beef up its merchandising strategy to keep the black ink coming.

The Wholesale Club faces a double-pronged problem in dealing with its competitors. It must compete with national and regional warehouse clubs; at the same time, it competes in many general merchandise areas with national discount stores like K mart.

"We've learned how to do business in the Midwest," said Wholesale Club president James Berk.

According to Berk, the company competes with conventional discounters by offering merchandise and packaging in ways that K mart, for instance, can't.

"The world doesn't need more Crest at 99 cents," he said. "But it does need a six-pack. K mart may offer a great price, but they'll have a limit of two per customer. We offer a great price every day, and we'll sell a pallet if that's what someone wants."

Competing against other wholesale clubs like Sam's is a bit trickier. Management regularly shops its competitors, and relies on sensitivity to its customers' needs to differentiate it from other clubs.

With a customer base that includes many young couples with kids, The Wholesale Club offers an expanded children's apparel department.

Moving quicker than most other warehouse operations, The Wholesale Club will install front and back end scanning this year, which Berk said will allow it to more quickly identify fast-moving and slow-moving items, so that the company will be able to get into and out of product areas quickly.

"Warehouse clubs have very distinct needs" compared to traditional discount stores, said vice president, MIS Ken Crawford. "We move faster and get in and out of products more often than do most retailers; we have to account for the cost of a product on a daily, not yearly, basis. The new technology will allow us to do that."

The 21-unit membership warehouse club plans to further refine its operating philosophy to build appeal among Midwest shoppers, according to vp, merchandising Ron Mitchum.

"One of our major goals is to continue to develop our apparel sales into a predictable, high-volume business," Mitchum said. Most membership clubs stick to the basics in apparel.

In the past, Mitchum said, "one mistake could kill us," because apart from socks and underwear, the company had little in the apparel department that it could rely on selling in predictable amounts. "What we're looking for are products that we can be sure will do a certain amount of business per week, give or take $500," he explained.

The Wholesale Club, like other membership warehouses, has built a solid business in "consumable" apparel like basic jeans, ties, underwear and socks. However, it has branched into fashion apparel of late, and within the last year has entered, then expanded, the children's market.

"We started with basics, but once they were established, we found we could branch out a bit with little risk," Mitchum said, noting that kids' wear has become an important part of the business now. "Our customers are perhaps ideal shoppers for this product area," he noted. "They tend to be young, married business people—and very likely to have kids."

"About 65 percent of our merchandise is set," Mitchum said. "Things like legal pads and paper napkins are always going to be here; but the other 35 percent has to change constantly or we'll become stagnant and boring."

The Wholesale Club

Headquarters: Indianapolis, Ind.
Number of stores: 21 (3 more projected)
Average store size: 100,000 square feet
Sales (fiscal 1989): $402.1 million
Earnings (1988): $4.6 million
Percent change sales: 48%
Percent change earnings: year-earlier loss

Source: The Wholesale Club

While warehouse clubs rarely compete with conventional retailers in basics areas like commercial containers of food, they do in consumable areas like apparel and consumer electronics.

To counteract customer boredom, The Wholesale Club tries to make sure that there will be something new to see every time a customer enters the store. Many times, that may mean simply switching brands, which the club does with products like televisions, VCRs and blank audio and videotape.

"Because we rotate brands, our customers understand that their preferred product will show up," Mitchum said. Brand rotation also allows the company to protect itself from out-of-stocks, which can be more damaging to a wholesale club than other retailers.

In seasonal products, the same holds true. Last year, for instance, the company carried a five-foot park bench; this year, it was replaced with a five-foot glider.

"The chances are that anyone who wanted a park bench already bought one," Mitchum said. "This gives us a better chance to sell you something."

Shorter Selling Seasons

The Wholesale Club has also attempted to compress selling seasons on some merchandise, particularly staple seasonal goods like white wicker furniture. This year, the company will sell about 20 percent less items, and will try to sell them in less time. "That will give us that much more time to try something new," Mitchum said.

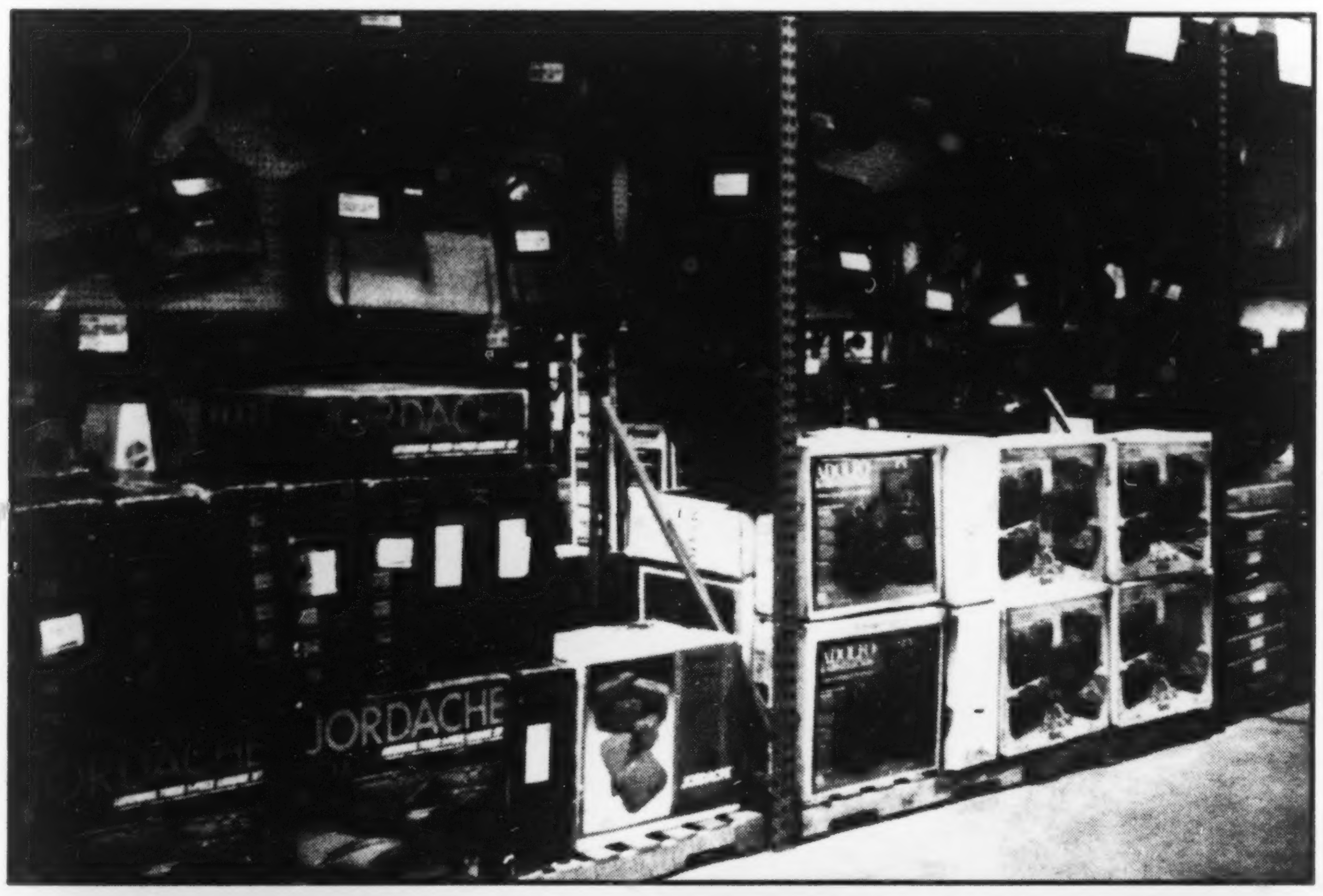
The extra room and sku flexibility (total sku count is constant throughout the year) allows the company to experiment. Last year, for instance, Mitchum saw a trend developing with Epilady depilatory devices. "We endcapped it and when it took off, we intensified it with floor pallets," he said. With Epilady airfreighting new shipments when necessary, The Wholesale Club sold some $500,000 worth of the product over the last six months of 1988.

The company also has had success with products like London Fog raincoats and overcoats, which it buys in one style and a limited number of sizes.

Over the years, The Wholesale Club has also gained insight into what its customers are really looking for.

"As a rule, the most upper-end product does the best," Mitchum noted. For instance, a Sharp rack system was both the most expensive and best-selling rack system carried by the club last year.

"And that really shouldn't happen," Mitchum said. "There should always be one product above the best seller, so we keep adjusting until we hit our highest price point." Increased margins and profits generally follow.



To avoid the pitfall of being too predictable and to increase opportunities for selling relatively high-ticket items to regular customers, The Wholesale Club rotates brand names in certain merchandise categories like luggage (above left), apparel, furniture (below left) and CE. Staples like H&BA (below) are sold in volume-intensive, high-margin packages. (DSN photos)

Regional Analysis:

West North Central

Iowa • Kansas • Nebraska • Missouri
Minnesota • North Dakota • South Dakota

Drought Dampens Economic Growth

Just as the country's rural heartland climbed to its feet after the Great Farm Depression, along came last year's drought to deal the West North Central a solid blow that hampered growth in income and employment during much of the year.

IMRA
1 9 8 9

However, this seven-state region, assuming normal weather for 1989, should see farm income rising by 20 percent, according to *DSN*/Mount Economic Consulting.

DSN/Mount is figuring on a 3.4 percent rise in discount store sales this year, just slightly above the 3.3 increase for the country as a whole. That increase should bring total general merchandise discount store sales to $8.9 billion.

This region—consisting of Iowa, Kansas, Minnesota, Missouri, Nebraska and North and South Dakota—saw a 3.1 percent rise in employment last year, according to *DSN*/Mount figures. Last year, discount store sales increased by just 3 percent.

Next year, *DSN*/Mount is calling for a 3.3 percent growth to $9.2 billion in sales.

> ***In the aftermath of the drought, the food processing, electrical machinery and non-electrical machinery industries all suffered production and income declines for the first time since 1986.***

With almost 18 million inhabitants, this region accounts for 7.3 of the country's total population. According to *Sales & Marketing Management's* 1988 Survey of Buying Power, the region is basically holding its own in terms of percentage of disposable income and retail sales based on its population. The West North Central accounts for 7.1 percent of the country's total effective buying power (disposable income) and 7.1 percent of the country's total retail sales.

According to a report from The Conference Board, the New York-based economic and business forecasting firm, the consensus estimate of private sector economists is that personal income increased by about 6.5 percent last year, roughly 0.5 percent less than in 1987. "Lingering and cumulative effects of the drought are likely to dampen growth by even more this year," said the report.

However, unemployment rates in much of the West North Central region are well below the national average, hence some businesses are paying wages well above the minimum for low-skilled workers.

In the drought aftermath, the food processing, electrical machinery and non-electrical machinery industries all suffered production and income declines for the first time since 1986.

Yet over the next few years, higher agricultural production, coupled with improvements in international trade conditions, should boost production, employment and income in most of the region's manufacturing sector.

According to Data Resources, employment in the computer and farm equipment industries (as well as other non-electrical equipment industries) will grow 3 percent a year through the end of 1991, compared with 2.8 percent nationally.

All but one of the seven states in this region are among the bottom 15 states in *Inc.* magazine's recent ranking of the 50 states by new jobs and companies and overall climate for growth.

Minnesota was the only state to break into the top 30, coming in as the 29th state. Missouri (35th, down from 31st), Kansas (37th, up from 38th), Nebraska (41st, up from 43rd), Iowa (44th, up from 46th), South Dakota (47th, down from 45th) and North Dakota (49th and steady) were the rankings of the others.

The region is home to six of *DSN*'s top 100 discount chains, including Target and Best Buy, Minneapolis; Venture, O'Fallon, Mo.; Western Auto, St. Louis, and Pamida, Omaha, Neb.

K mart and Wal-Mart's incursion onto Target's home turf has apparently plateaued, at least for the time being. K mart's store count dropped by 12 units over the last 12 months, with total store count now 187. Wal-Mart, now with 159 units, showed a nine-unit decline.

However, Wal-Mart did open its third Hypermart USA in Topeka, Kan., last year, and its fourth hypermarket is scheduled to open in Kansas City, Mo., in August (see profile of Kansas City market on page 132).

Target added just one unit, bringing its store count in the region to 59.

Pamida added 13 units to reach 121 stores in operation. Dollar General, now with 96 units, added six. ALCO added five units and is now operating 62 stores.

ShopKo decided to do its expansion over the last year outside the region (see story, page 135). Within the region, it still has its 30 stores in operation.

Gibson's, at 28 units, added one; Venture was unchanged with 24 stores; Best Products added a unit to reach the 21-store count.

The smaller chains fared as follows: Jack's was unchanged with 7 units; Grandpa Pidgeon's added 2 units, now with 7; Home of Economy remained unchanged at 5 units, as did Holiday Plus with 4 units.

In most states, there is a three-way competition in market share of general merchandise discount store sales among K mart, Target and Wal-Mart. However, ShopKo and Venture are major players in some states.

Top discounters' market share percentages of total general merchandise sales by state stack up as follows:

- Iowa—K mart 10.3, Target 8.4 and Wal-Mart 6.2;
- Kansas—Wal-Mart 14.1, K mart 8.3 and Venture 2.6 (Target 1.2);
- Minnesota—K mart 6.5, Target 6.1 and ShopKo 2.5 (Wal-Mart 0.5);
- Missouri—Wal-Mart 17.3, K mart 6.1, Venture 4.4 and Target 3.0;
- Nebraska—K mart 8.5, ShopKo 6.3, Wal-Mart 6.0 and Target 3.6;
- North Dakota—K mart 13.4 and Target 8.4;
- South Dakota—K mart 14.3, ShopKo 5.7 and Target 4.9.

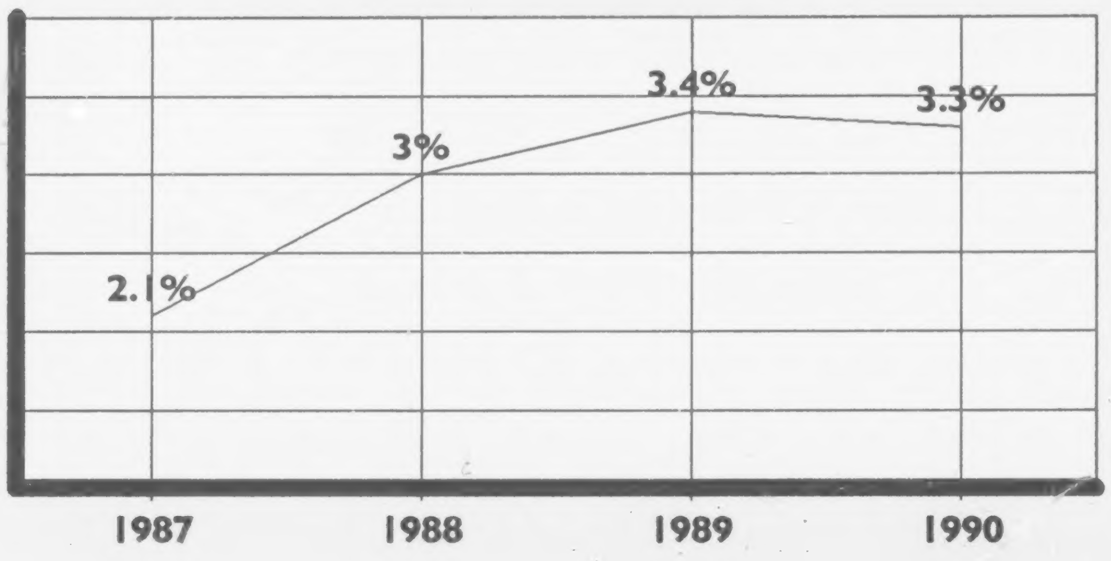
Future population growth for the region, according to U.S. Census Bureau projections, will be moderate through the year 2010.

In fact, three of the region's states are projected to lose population from 1990 to 2000—Iowa, North Dakota and Nebraska.

West North Central Snapshot

The West North Central region is rebounding with its agricultural base. The summer drought reduced agricultural stockpiles and thinned herds. Assuming normal weather for 1989, farm income could rise by 20% and the West North Central states would continue to prosper. Missouri, with higher concentration in autos than other states in the region, will be the laggard.

West North Central Discount Store Sales
(Percent Change 1987-1990)



State	Employment Percent Change Year Ago	Retail Sales Percent Change 1987-1988
Iowa	4.7%	10.1%
Kansas	2.8	4.7
Minnesota	3.1	10.0
Missouri	2.2	3.3
Nebraska	4.1	1.4
North Dakota	2.0	4.4
South Dakota	1.8	5.8
Region:	3.1%	8.4%

**projected*

Source: DSN; Mount Economic Consulting

West North Central Region: Discount Store Count

Chain	Stores	Chain	Stores
Discount Dept. Stores		**Sam's Dept. Stores**	3
K mart	187	Smith's	1
Wal-Mart	159	Red X	1
Pamida	121	Yellow Front	1
Dollar General	96	Ace Mart	1
ALCO	62	Skagway	1
Target	59	**Catalog Showrooms**	
ShopKo	30	Best Products	21
Gibson's	28	Service Merchandise	11
Venture	24	**Warehouse Clubs**	
White Mart	8	Sam's	7
Jack's	7	The Wholesale Club	5
Grandpa Pidgeon's	7	PACE	2
Home of Economy	5	**Hypermarkets**	
Holiday Plus	4	Hypermart USA	1
Family Thrift Center	4	**Total:**	**856**

Source: DSN research

BEST COPY AVAILABLE

Crowded K.C. Braces for Hypermart

Kansas City, Mo., ranked 25th in population and retail sales and 29th in per capita income.

KANSAS CITY, Mo.—This bi-state heartland city of more than 1.5 million people, which will be home to Wal-Mart's fourth hypermarket, is struggling to maintain a healthy level of economic growth.

Kansas City boasts of, among other things, having more fountains than any other city except Rome, as well as being the nation's most centrally located principal city. Ranked 25th in population and retail sales and 29th in per capita income, this 10-county metropolitan community (four in Kansas, six in Missouri) is situated within 250 miles of both the geographic and population centers of the United States.

Like other United States cities, however, Kansas City is experiencing steady losses in construction and manufacturing (especially durable goods manufacturing) jobs while seeing gains in service employment such as telecommunications, health care and air transportation.

With a projected decline in inflation-adjusted retail sales in 1989, and with several local observers calling the Kansas City metropolitan area "overstored," industry observers will be watching to see what sort of miracles Wal-Mart will be able to work with its new Hypermart USA.

The 268,000-square-foot hypermarket, scheduled to open in August, anchors a new strip mall/office complex that's being built directly opposite the existing Bannister Mall, the most popular mall in the Kansas City area.

With a 7.9 percent population growth rate since 1980, Kansas City has been increasing its population during the decade at a greater rate than such cities as St. Louis (a 3.4 percent growth), Cincinnati (3.3 percent), Columbus, Ohio (6.1 percent), Indianapolis (5.3 percent), New Orleans (5.1 percent) and Portland, Ore. (6.6 percent). In 1987, Kansas City's population grew by 1.6 percent to 1,546,400.

Yet the 10-county area saw employment grow by less than 1 percent last year, down from 1.1 percent in 1987 and 2.9 percent in 1986. The Kansas City Chamber of Commerce predicted employment would rise only 0.8 percent this year and 0.3 percent in 1990. The area will add about 6,000 new jobs, mostly in services, trade, chemicals, printing and publishing.

Since 1985, the Kansas City metro area has lost about 12,000 jobs in the durable goods manufacturing sector, with steel, auto assembly and electrical equipment industries hardest hit. Fortunately, these job losses have been offset to some degree by gains in non-durable goods manufacturing, which grew by 2.1 percent last year. Printing, publishing and the chemicals sector, including pharmaceuticals, were strong in 1988.

Construction employment was almost unchanged last year, reflecting the slowdown in multifamily housing. Employment was supported by work on projects begun in prior years. Wholesale and retail trade employment was also sluggish, growing at the slowest annual rate since the recession. Even the service sector had a slower rate of growth, though the sector still added about 4,000 jobs in 1988. The financial sector also grew by less than 1 percent, while government employment continued to grow by 2.0 percent last year, mainly as a result of state and local employment increases.

The city's unemployment rate averaged 5.0 percent last year compared to 5.5 percent in 1987. While Kansas City's unemployment rate continued below the national average of 5.5 percent, the U.S. rate continues to fall faster than the local rate, causing the rates to converge. According to the city's Chamber of Commerce, the local and national unemployment rates will "edge upward as economic conditions weaken in the second half of the year."

Local retailers are getting used to fighting for shrinking consumer dollars. Personal income, adjusted for inflation, declined by 1 percent in 1988 to $19.8 billion, marking the second year in a row of a drop in purchasing power.

The outlook for 1989 is for total personal income to grow by about 5.0 percent to $25.8 billion, yet adjusted for inflation income is expected to be unchanged, as the rate of inflation will wipe out any rise in personal income.

However, total retail sales in 1988 in the Kansas City metro area registered the first year-to-year gain since 1984, rising by 1.9 percent to $10.6 billion. Yet part of the increase was due to rising prices, which inflated the value of goods sold. In 1987, retail sales declined by 11.9 percent.

The outlook for retail sales in 1989 is for growth of about 4.0 percent before adjusting for inflation. With the adjustment, and figuring on a 5.0 percent inflation rate, retail sales are expected to decline.

According to a local survey conducted by the Kansas City *Star & Times*, there was a decrease in the number of shoppers visiting area malls during March of this year compared to March 1988. The only mall not showing a decline was Bannister Mall.

"Retailing is fairly flat. In fact, it's declining a little," said Bill Slaughter, senior research analyst in the *Star & Times'* marketing department.

In downtown Kansas City, the most upscale department stores are Dillards (the store had been a Macy's) and The Jones Store. The big upscale center, called Country Club Plaza, is at the very northern end of downtown, with such stores as Saks Fifth Avenue, Bonwit Teller, The Sharper Image, Ann Taylor and Banana Republic.

Frederic Hron, editor of *Corporate Report*, Kansas City's monthly business magazine, said, "The area saw a lot of retail growth in the early- to mid-1980s. In the mid-'80s a lot of discounters came in—Wal-Mart, catalog showrooms, Walton's Wholesale Club [not called Sam's here because there's a local chain of discount stores based here called Sam's Discount Stores]. A new strip center was going up somewhere every time you turned your head."

Hron said that now most people think the city is overstored. He said the only real activity, in terms of new retail stores going up, has been among "niche retailers" in paper goods, business supplies, home electronics and others. He said, however, that a new Wal-Mart store—not the hypermarket—is currently being built.

Hron said that the only major complex going up now is Benjamin Plaza, the strip mall and office complex being built opposite Bannister Mall.

"The big Wal-Mart hypermarket is going in there, and I think a Toys "R" Us," said Hron.

He added that "everyone around here is aware that Wal-Mart has the reputation of knowing what it's doing, so everybody's really interested to see what's going to happen."

Discount Store Count: Kansas City

Chain	Stores
Discount Dept. Stores	
K mart	16
Wal-Mart	15
Venture	7
Sam's Dept. Stores	3
Stein Mart	1
Gibson's	1
Catalog Showrooms	
Best Products	2
Warehouse Clubs	
Sam's	4
Hypermarkets	
Hypermart USA	1
Total:	**50**

Source: DSN *research*

Gibson's, with one unit in Kansas City, has the unenviable task of competing against giants K mart and Wal-Mart in an overstored market. (DSN photo)

IMRA '89: ShopKo

Super-Regional ShopKo Reaches Out

GREEN BAY, Wis. — ShopKo Stores, the wholly owned subsidiary of Super Valu Stores, is one of the discount store industry's fastest-growing "super-regionals."

The 87-unit chain, based here, will add 11 new 94,000- to 104,000-square-foot units later this summer and fall, bringing the chain's store count to 98 by year-end. With 12 new stores added last year, Super Valu is in the process of growing the ShopKo chain by more than 30 percent in the 1988 to 1989 period.

To legitimately label the $1 billion-plus ShopKo a "regional" chain is to stretch the meaning of the word. With four of the new 1989 stores being in California and Oregon, which represents new markets, this discounter's store count by state line-up will look like this: 34 units in Wisconsin; 12 in Minnesota; 10 in Nebraska; nine in Utah; eight in Idaho; six in Washington; five in South Dakota; three each in Michigan, Iowa and Oregon; two each in Montana and Nevada, and one in California.

The new 1989 sites will be in Redding, Calif.; Boise, Idaho (ShopKo's second unit there); Green Bay East (a relocation), Grafton and Onalaska, Wis.; Logan and West Valley City, Utah; Kennewick and Walla Walla, Wash.; two in Eugene, Ore., and another in Bend, Ore. Plans earlier in the year for a second store in South Dakota have been scrapped for now.

ShopKo has also announced plans to build a new and larger store—94,000 square feet—on the existing ShopKo site in Kingsford, Mich., which is scheduled to open in summer 1990. Until the opening of the larger unit, the present Kingsford store will remain open. After the opening of the new store, the old store will be demolished.

Add to those expansion plans the February debut of Twin Valu, Super Valu's 180,000-square-foot hypermarket in the Cleveland suburb of Cuyahoga Falls, and ShopKo is fast becoming a discounter powerhouse. The Twin Valu hypermarket is essentially a marriage between Super Valu's Cub Foods discount food superstore and ShopKo discount general merchandise store.

This expansion is being fueled by strong sales and earnings figures, along with substantial capital infusion from parent Super Valu, which is headquartered in Minneapolis.

While specific 1988 figures for ShopKo were not available prior to the release of Super Valu's annual report this year, sales and earnings are expected to approach—and probably exceed—the chain's impressive 1987 growth numbers. In that year, sales topped $1 billion for the first time, hitting $1.1 billion, a 17 percent jump over the previous year's $940 million sales figure. Earnings rose by 14 percent to $61 million in 1987, from 1986's $53.5 million.

For the fiscal year that began in March, ShopKo will be receiving $180 million, or 38 percent, of parent Super Valu's capital budget. Also included in that budget are costs associated with the opening of a second Twin Valu hypermarket in spring 1990.

As for Super Valu, it posted sales for the 52 weeks ended Feb. 25, 1989, of $10.3 billion, a 9.9 percent increase over fiscal 1988. Earnings outstripped sales, jumping 21.1 percent to $135.4 million, reflecting an earnings-per-share of $1.81, up 20.7 percent from the previous year. The year's sales and earnings figures have set company records.

Mike Wright, chairman and ceo of Super Valu, said in a statement that he's "very pleased" with the "continuing expansion of ShopKo and the further development of our hypermarket strategy." He added that ShopKo "had enjoyed a strong Christmas selling season" and that fourth-quarter results had brought ShopKo's full-year performance in line with expectations.

Wright also said that customer response to the Twin Valu hypermarket outside Cleveland was "excellent."

The strategy for the hypermarkets—the second one will also be in the Cleveland area—includes a broader selection than other hypermarkets and a strictly ShopKo discount store merchandise presentation. The hypermarket also remains open 24-hours-a-day.

"We're not trying to change our customer," said ShopKo vice president Gene Bankers. "Our shoppers have confirmed that they like the discount store concept, and we're sticking with it."

Twin Valu carries 60,000 sku's, considerably more than most hypermarkets, and the 25,000 food sku's are about double the number generally carried by supermarkets.

While food is the primary drawing card, Twin Valu has also added dominant selections of apparel, housewares, H&BA, sporting goods, toys and seasonal goods, with lesser attention paid to departments like stationery, books, CE and jewelry.

Twin Valu has cut sku count by offering a smaller selection in some basic consumable items, like socks and underwear, for instance. This strategy is almost the opposite of the "traditional" hypermarket. Both Auchan and Hypermart USA, for instance, have ticketed CE as a power department, and both have sizeable jewelry and stationery departments. Neither is very strong in H&BA (perhaps because of margin pressure), and both are much stronger in electric home goods than in traditional housewares like plastic goods and cleaning supplies.

Bankers said that while an effort was made to stick to the familiar discount image, certain changes were made to "take advantage of the efficiencies offered by the hypermarket format."

One of those is cross-merchandising of food and non-food items, which Twin Valu is testing in a limited manner. For instance, a display of woks in hard lines is accompanied by mass displays of rice and teriyaki sauce.

"We won't do things like that often, but there's a place for it," Bankers said.

Girls' and boys' brands included Health-Tex, L.A. Gear, Chic, Wrangler, Lee, Fruit of the Loom and Garan.

The entire store is extensively signed, with departments clearly marked and other signage pointing out both brand names and Twin Valu features like toy safety testing.

ShopKo Stores

Headquarters: Green Bay, Wis. (parent Super Valu is headquartered in Minneapolis)

Number of stores: 87

Average store size: 99,000

Sales (1987): $1.1 billion

Earnings (1987): $61 million

Percent change sales: 17%

Percent change earnings: 14%

Source: ShopKo

ShopKo maintains a high profile in several regions, including 30 stores in the West North Central, 20 in Mountain, and 38 in the East North Central.

ShopKo will add 11 94,000-plus-square-foot units this year and a second Twin Valu in 1990.

ShopKo maintains dominant selections in toys and sporting goods. Not yet released 1988 sales are expected to pass 1987's record of $1.1 billion. (DSN photos)

JORDACHE
$11.91
Manhattan

Jordache and Manhattan are among the men's apparel brands at Twin Valu—a marriage between Super Valu's Cub Foods supermarket and ShopKo.

BEST AVAILABLE COPY

Regional Analysis:

South Atlantic

Delaware • District of Columbia • Florida • Georgia
Maryland • North Carolina • South Carolina • Virginia • West Virginia

Home & Haven for Top Discounters

With well over 2,000 discount retail stores and the highest percentage increase last year in total employment compared to any other region, the South Atlantic states are among the most prosperous in the country.

IMRA 1989

Also one of the healthiest retailing regions in the country, the South Atlantic is expected to top $14 billion in discount store sales this year, according to Mount Economic Consulting. The only other region generating more discount store sales is the East North Central.

The projected rise to above $14 billion represents a 3.5 percent increase from 1988, the third-highest regional rise after the East South Central and Pacific regions. In comparison, the country as a whole will see general discount store sales rise by 3.3 percent.

The South Atlantic also saw employment increase by 4.2 percent last year, the highest figure in the country.

The region is home base to six of the nation's top 100 discounters: Best Products and Circuit City, Richmond, Va.; Rose's, Henderson, N.C.; Heck's, Nitro, W.Va.; Family Dollar, Charlotte, N.C.; and Brendle's, Elkin, N.C.

Within the region, West Virginia is having the toughest time of it, with just a 2.1 percent employment increase last year. Florida and Delaware—with employment increases of 5.4 percent and 5.2 percent, respectively—are the healthiest of the states in terms of employment.

High Rankings for Growth

In a 1988 ranking of the top states according to new jobs, new companies and overall climate for growth, seven of the eight South Atlantic states were in the top 20 (West Virginia was 40th out of 50), and Maryland, Florida, Virginia, Georgia and Delaware were all in the top 10.

Backing up the Mount figures, The Conference Board, the management and economic research group based in New York, pointed to a 2.5 percent real income per capita climb for the South Atlantic region every year from 1970 to 1987. "The fastest growth rate in the nation," said the forecaster.

However, both employment rates and the rate of discount store sales growth is expected to slacken in 1990, according to a number of sources.

According to Mount, discount stores sales will increase by just 3.3 percent in the South Atlantic, and according to The WEFA Group, the economic forecasting firm based in Bala Cynwyd, Pa., the region's unemployment rate will jump to 5 percent in 1990, compared to this year's 4.8 unemployment rate figure.

The Conference Board points to the already-announced layoffs of thousands of workers this year from among Atlanta's automotive, aircraft and aircraft assembly industries as part of reason for troubled times ahead.

The scaling back of Lockheed's operations in Georgia as its C-5B program nears completion, coupled with planned layoffs by General Motors and Pratt & Whitney, could adversely impact K mart's American Fare hypermarket as well as other discounters in the area.

As of this quarter, the South Atlantic region's total population is just under 43 million. However, for purposes of comparing buying power, in 1987 the population was just over 42 million, or 17.1 percent of the total U.S. population. The region accounted for 16.3 percent of the country's disposable income and was responsible for 17.6 percent of total retail sales.

Given the generally rosy South Atlantic picture, it isn't surprising that Wal-Mart targeted the region during the past 12-month period by adding 58 units, a 33 percent increase to a total of 236 units.

Not to be outdone, K mart—not counting the opening of its American Fare hypermarket, the region's first—also added 58 stores in the region during the past year, for a 14 percent store increase to 480 units.

While the regional discounter with a major presence is Rose's, the chain only saw 18 new units open their doors in the region, up a mere 9 percent to 208 stores.

Through major acquisitions over the last 12 months, Target has entered the region for the first time and Ames has almost doubled the number of its stores here.

Converting 30 Gold Circle/Richway units in four of the eight states, Target opened 14 units in the Atlanta area alone late last month. Target now has 14 units in Georgia, seven in Florida, six in South Carolina and five in North Carolina.

Both through its own growth and its merger with Zayre and resulting conversion of some of the Zayre units, Ames now has 83 units here, a 37-store, 80 percent increase. In addition, there remain 127 Zayre units in the region; last year there were 133.

Smaller Regionals Struggle

The smaller regionals in the area are struggling to maintain a presence here. Sky City, with 63 units, lost five stores over the last year, while Maxway lost eight units, dropping to 51 stores. Worst of all was Heck's, losing 11 units and dropping its store count to 40 this year.

But the region is really shaping up as a battleground between K mart and Wal-Mart.

According to Salomon Brothers research of estimated market share of general merchandise sales, K mart and Wal-Mart are going head-to-head in a number of South Atlantic states.

In Georgia, Wal-Mart represented 9.3 percent of all 1987 sales of general merchandise, apparel and home furnishings, compared to K mart's 8.7 percent.

In Florida, K mart captured 7.6 percent and Wal-Mart 4.4 percent, but since Wal-Mart added more units in Florida last year than K mart, those numbers will have undoubtedly tightened for 1988.

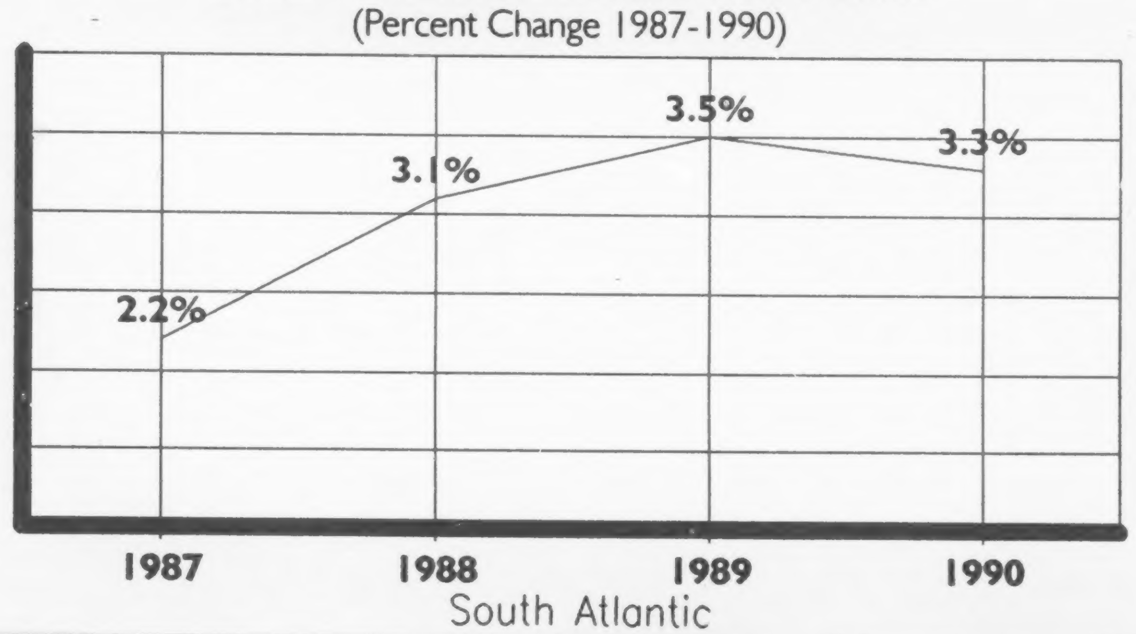
And, in South Carolina, Wal-Mart is working on an 8.5 percent share compared to K mart's 10.0 percent.

South Atlantic Snapshot

The large and diverse South Atlantic states will be among the strongest regions through 1990. Tourism, light manufacturing and high technology will remain strong. The two major negatives for the region will be a slowdown in defense spending and softness in furniture manufacturing as a result of weakness in housing and incomes. West Virginia will remain the weakest link in the region as it faces continued problems with low energy prices.

South Atlantic Discount Store Sales

(Percent Change 1987-1990)



State	Employment Percent Change Year Ago	Retail Sales Percent Change 1987-1988
Delaware	5.2%	5.1%
District of Columbia	2.5	9.6
Florida	5.4	9.3
Georgia	4.2	2.5
Maryland	2.8	3.5
North Carolina	3.5	9.3
South Carolina	4.6	10.6
Virginia	4.5	4.4
West Virginia	2.1	2.3
Region:	**4.2%**	**7.2%**

*projected

Source: DSN; Mount Economic Consulting

South Atlantic Region: Discount Store Count

Chain	Stores	Chain	Stores
Discount Dept. Stores		**Catalog Showrooms**	
K mart	480	L. Luria	47
Dollar General	402	Brendle's	41
Wal-Mart	236	W. Bell	12
Rose's	208	Brand Distributors	7
Zayre (Ames)	127	Evans	6
Ames	83	Mann's	5
Sky City	63	W.R. Blair	5
Maxway	51	Consumers Distributing	4
Heck's	40	David Weis	4
Target	30	John Greenan	4
Jamesway	23	Wilbro	3
Hills	18	Myers'	3
Nichols	16	**Warehouse Clubs**	
Magic Mart	9	Sam's	18
Lechmere	9	PACE	14
Caldor	8	Costco	9
Stein Mart	7	Price Club	7
Gee Bee	5	BJ's	4
Value City	5	Makro	3
Catalog Showrooms		**Hypermarkets**	
Service Merchandise	65	American Fare	1
Best Products	50	**Total:**	**2,162**

Source: DSN research

Economy Ripe for Big Three Invasion

With the second-highest disposable income of South Carolina's metropolitan markets, the Charlotte area is ripe for retailers.

CHARLOTTE, N.C. — The possible merger of two large regional banks in the area is indicative of how recession-resistant interstate banking, along with insurance, is driving the economy of Charlotte.

At presstime, NCNB Bank, one of the two leading regional banks in Charlotte, was attempting to pull off a $2.4 billion takeover of Citizens and Southern Bank, Atlanta.

If it succeeds, NCNB would become a banking powerhouse, ranking nationally No. 6 in assets, up from 10th place.

Other testaments to the economy: K mart picked Charlotte as the locale for its second American Fare hypermarket, scheduled to open in December. And Wal-Mart, after ringing the fringes of the market with five stores, in its standard strategy, is plunging into Charlotte proper with two of its new metropolitan sized stores (see story, page 1). In addition, it is building a third of the 144,760-square-feet prototype units in nearby Gastonia.

The new Charlotte stores are part of an aggressive Wal-Mart expansion into North Carolina and Virginia that signals further trouble for Rose's Stores, the regional chain based in Henderson, N.C., and new competition for Family Dollar, headquartered in Charlotte.

In another discounting development, Target has invaded Charlotte, a new market, by reopening the four former Gold Circle (and former Richway) stores it acquired last fall. Target bought a total of 30 Gold Circle stores in the Southeast, a move that takes it one more step closer to becoming a national chain.

Newcomers to Charlotte include K mart's second American Fare hypermarket, due to open in December; Wal-Mart, with two of its new metro-sized prototype units; Target, which has reopened four former Gold Circle units purchased last fall; and Stein Mart, with one unit.

Another newcomer is Stein Mart, Jacksonville, Fla., which is remodeling a former Ivey's Department Store for its first entry into the market.

On the downside, Ames closed both of the Zayre stores here since acquiring the chain. One is being converted into a home center, but Ames is still trying to sell the other.

In store count, Family Dollar has blanketed the market with 20 units. "They're everywhere," said Eric Karnes, director of market research at Charter/Walker Company, a major developer.

Among warehouse clubs, Charlotte shoppers can chose from two PACE Membership Warehouses and one Sam's Wholesale Club.

K mart apparently will have the hypermarket field to itself when its opens its American Fare. It will be 160,000 square feet in size, far smaller than its first hypermarket in Atlanta that is 233,000 square feet.

As a further sign of economic growth, developers Charter/Walker are building a 60-story office tower occupying a downtown square block. NCNB bank will take half. The complex also will feature a retailing complex and a $30 million performing arts center.

When it opens in 1992, the NCNB Tower will eclipse the 42-story home office of its rival, First Union Bank.

The Charlotte/Gastonia and Rock Hall, S.C., metropolitan statistical areas boasts a population of 1.1 million and the second-highest disposable income of the state's metro markets. The median family disposable income was $25,437, as of Dec. 31, 1987, reported *Sales & Marketing Marketing Management* magazine in its 1988 survey. Only Raleigh/Durham, with its concentration of high-tech and research and development companies, exceeded that at $27,754.

Retail sales of general merchandise, appliances and furniture totaled $1.25 billion in 1987, *S&MM* reported.

Retail sales overall shot up by 12.5 percent in 1988 over 1987, the North Carolina Department of Revenue said.

With unemployment running at 2.3 percent in Charlotte, "help wanted signs are everywhere," said George Henderson, general manager of the Charlotte Merchants Association. "The town has mushroomed with apartments."

Although Charlotte is "notoriously anti-union country," wages in retailing are increasing because of higher pay at banks and insurance companies, Henderson said. "If you don't pay your people, they'll steal your labor."

"It's anybody's guess" how Target will do in Charlotte, Henderson said.

As for Wal-Mart, Henderson claims "people are very upset" about its new store coming to the Arboretum mall, located in Raintree, one of the most affluent residential areas of the city. Wealthy residents had been expecting a Lord & Taylor department store, but it pulled out after city planners cut the size of the proposed mall by more than half to alleviate traffic congestion.

Discount Store Count: Charlotte/Gastonia/Rock Hall MSA

Chain	Stores
Discount Dept. Stores	
Family Dollar	20
K mart	13
Rose's Stores	5
Wal-Mart	5
Sky City	4
Target	4
Maxway	2
Nichols Discount City	1
Catalog Showrooms	
Service Merchandise	3
Brendle's	2
Warehouse Clubs	
PACE	2
Sam's	1
Total:	**62**

Source: DSN research

The other Wal-Mart within Charlotte's city limits is being built in a traditional strip center area of lower-income residents with a great deal of industry. That Wal-Mart "could be a hell of a place to shop after work," Henderson predicted.

Charlotte is different from many cities its size in that it still enjoys a vibrant downtown, said John Connaughton, director of the Center for Business & Economic Research at the Charlotte campus of the University of North Carolina.

The city has banking and insurance to thank for that, Connaughton said. Although retailing is a major business in Charlotte, banking is the dominant industry and the center of the economy, he said.

Insurance is another major force, he said. Last year, Royal Insurance, for example, moved its 600 headquarters employees to Charlotte from New York City, he said.

Even though the flagship store of Belke's Department Store is being torn down to make room for the new NCNB Tower, a retailing portion of the project will features numerous specialty shops.

Because Charlotte has more jobs than people, even fast-food restaurants pay at least $5 an hour, Connaughton said. "There are no minimum wage jobs in Charlotte."

PACE has tried to recruit youngsters away from supermarkets, Connaughton said. Target had trouble staffing its stores, he said. "It couldn't hire anyone."

Housing sales rose in Charlotte in March, bucking the downward national trend, Connaughton said.

Charlotte has no soft spots in its economy, he said. Banking isn't cyclical, "Bank earnings don't go down when interest rates increase."

In addition to banking, distribution and manufacturing are other major industries, said Karnes, market research director for Charter/Walker.

Because of the labor shortage, Target had to pay more to hire, Karnes said. Workers from rural areas, particularly ex-textile workers, drive 50 and 60 miles to jobs in Charlotte.

Charlotte added 35,000 jobs in 1988 for a total of 611,200, Karnes said.

"Wal-Mart will be intriguing to the public because of the publicity it generates," Karnes predicted.

Although Rose's operates stores on the fringes of the Charlotte MSA, it opened its first store in a suburban Charlotte shopping center just in February, Karnes said, in the community of Cornelius.

A Rose's spokesman said the chain doesn't regard that store, located 20 miles from downtown Charlotte, as part of the Charlotte market and plans no stores within Charlotte.

That leaves newcomers Wal-Mart and Target to slug it out with K mart for dominance. K mart operates four stores within Charlotte's city limits and nine more on the outskirts of the metro market.

IMRA '89: Rose's

New Merchandisers Bring Changes

THE BEST FOR LESS
$12.97

One of Rose's recent merchandising changes has been the addition of a private label line in apparel. Men's pants, sportswear, shirts and women's hosiery are currently available, with children's clothing, men's hosiery and other categories due to be added during this year. All of the new private label merchandise is made to the chain's exact specifications.

HENDERSON, N.C. — Everything's not coming up Rose's here in the South; it's coming up Wal-Mart. But Rose's is now better positioned to withstand competition from the high profile star of the discount retailing industry.

Rose's management says it has weeded-out internal factors that have choked its growth, including selected merchandise lines, personnel and operating systems.

Rose's stores were confronted with 70 new stores that opened sometime during 1988, said company president Jack Bush. An additional 70 new competitors' outlets are expected by the end of this year, he added. Wal-Mart stores represent the majority of these new stores.

The management of the 261-unit regional chain spent the past year replacing roughly 35 percent of its merchandising staff. Included in the mass move were all three general merchandise managers and four out of nine divisional merchandise managers.

The new merchandising team, in turn, located several new vendor sources. By changing some of the manufacturers they worked with, merchandisers gained up to 30 percent more sales in some departments, said Robert Floum, vice president, merchandising.

"One of the biggest things we have going for us now is the change in our merchandising staff," Floum said. "We expected last year wouldn't be too good due to all the changes. By fall, however, we had made some major strides, compensating for losses earlier in the year," he said.

"I don't think we'll miss our plan in '89," he added.

Lucius Harvin III, chairman of Rose's, was vehement in his conviction that Rose's can withstand the competition from larger chains like Wal-Mart. He made it clear that Rose's is one regional chain that will be around for the long haul.

"We are not for sale," said Harvin. "We started in 1915. I expect to be here in 2015.

"Regional chains, if they operate well, can survive against national chains through better customer service and by being different from everybody else—there is no doubt in my mind," Harvin explained.

One example of the turnaround in category performance was in jewelry.

"The entire jewelry and accessories area was underdeveloped. We restructured the entire area. Roughly 80 percent to 90 percent of the vendors are new since November. The department has been up 20 percent," Floum said.

> ***'Regional chains, if operated well, can survive against national chains through better customer service and by being different from everybody else.'***
>
> —Lucius Harvin III, chairman, Rose's

Other categories that Rose's has improved recently include: home goods, consumer electronics, stationery, home office, kids and toys.

"We had been treating the home area as a basic business, not a fashion business. We had done a little with RTA, but within the past year we've tied together groupings. We've downplayed soft window coverings since that is not where the business is. We're not complete, but are pleased with customer response so far," said Floum.

SAVE MORE
EVERYDAY LOW PRICE
$2.97
SATISFACTION GUARANTEED
SAVE MORE
AS ADVERTISED
2/$7.00
SAVE MORE
Best Less
$4.97

Elements of everyday low pricing were incorporated into Rose's merchandising strategies last February. If an item sells well at a given ad price, then that ad price becomes the everyday low price for that item. (DSN photos)

Other merchandising changes include the development of an extensive private label apparel line. Women's hosiery, men's pants and sports shirts are among the categories where Rose's is currently offering the private label line.

The list of categories is expected to grow during the year to include children's clothing, men's hosiery and others. All of the new private label merchandise is made to the chain's exact specifications, insuring that every size 12, for example, will be comparable to every other size 12, an often overlooked detail that leads to better customer satisfaction.

Harvin cited a new ordering and scanning system as an important ingredient to the chain's continued strength. The company will soon test UPC scanners in about a dozen stores. If the tests go as planned, the current OCR-A (Optical Character Recognition) scanning system will become a thing of the past.

"A new ordering system will also be installed this year that will help shelf-to-shelf time. We'll be spending less time with replenishment," Harvin said.

The ordering system will allow the scanning wand to be used to order merchandise when passed over a shelf-edge UPC label.

Rose's is also updating its advertising approach, blending elements of everyday low pricing with a new thematic presentation in its print advertising.

"Instead of omnibus circulars, we'll have thematic circulars: white sales, kids' week—major dominant stories," said Floum.

"The percentage of ad sales are rising. During the last year they were up 3.5 percent; our goal is have that up another 3.5 percent or 4 percent."

Improving the in-stock situation on advertised items is also a high priority.

"We are especially committed to keeping in-stock on sale goods," said Harvin. "We are a tab-driven company. When we advertise something, it will be in the stores 100 percent. We're not there yet, but we will be soon."

Rose's Stores

Headquarters: Henderson, N.C.
Number of stores: 261
Average store size: 50,000 square feet
Sales (1988): $1.44 billion
Net Earnings (1988): $16.36 million
Percent change sales: 7.7%
Percent change earnings: (9.6%)

Source: Rose's Stores

Elements of everyday low pricing were also incorporated into Rose's merchandising strategies last February. Items that sell well at a given ad price are candidates for everyday low pricing. "If the item is selling at 80 percent on ad anyway, then that ad price will become our everyday low price," Floum explained.

Other changes in advertising approach also went into effect in February, such as the special value program. SVP items are seasonal items merchandised on endcaps and midways. The sign lists the usual price and the SVP price which is in effect for a 30-day period, "simply because it's during that month the product is in highest demand," Floum noted.

"It's our way of drawing attention to the way we give customers what they want," he said.

Regional Analysis:

East South Central

Alabama • Kentucky
Mississippi • Tennessee

Discounter Sales Still Play Catch Up

The four-state, manufacturing-intensive East South Central region is still struggling to emerge from a slow growth period that has seen little expansion among the ranks of discounters.

According to projections from Mount Economic Consulting, the region should see a 3.7 percent increase in discount store sales this year, the highest increase of any region in the country. But that projected increase seems to be more a reflection of how far the region has to go to catch up with the rest of the country than any tremendous revival.

IMRA
1 9 8 9

The East South Central region—consisting of Alabama, Kentucky, Mississippi and Tennessee—is expected to account for $7.66 billion in discount store sales this year. Right now, there are less than 1,000 discount stores in the region and no hypermarkets.

The region's total retail sales rose by 7 percent last year, according to Mount data, with Kentucky—up 12.3 percent—bolstering the region. Alabama was up 4.5 percent, Mississippi 6.2 percent, and Tennessee 5.6 percent.

While economic gains have been sluggish in the region as a whole, increases in manufacturing output should accelerate growth in both Tennessee and Alabama this year and next.

Employment in the region was up 2.3 percent last year, one of the lowest increases of all the regions. Mississippi and Kentucky—at 3.1 percent and 2.7 percent, respectively—showed the greatest increase in employment, while Alabama (2.1 percent) and Tennessee (1.7 percent) lagged behind.

However, Mount forecasts indicate that increases in manufacturing output will accelerate the growth of Tennessee and Alabama through 1990. Buttressing this forecast is the ranking of both Tennessee—at No. 10—and Alabama—at No. 19, in the top 20 states in terms of new jobs, new companies and overall climate for growth, according to *Inc.* magazine. The year before, Tennessee was 11th and Alabama 21st, so both states have shown recent growth.

Kentucky and Mississippi also showed growth in the *Inc.* rankings, but Kentucky could still only manage the 30th slot (from 34th last year), and Mississippi was down in the 38th position (up from 40th).

The East South Central region, with a population of 15.5 million, represents just 6.3 percent of the country's population, according to *Sales & Marketing Management's* 1988 Survey of Buying Power. However, the region accounts for just 4.9 percent of the country's disposable income and 5.2 percent of total retail sales. With both of these percentages less than its proportionate share of the country's population, the East South Central, in terms of buying power, is not holding its own.

In fact, the region is home to only one city—Nashville—that ranks in the top 50 in the country for disposable income. And Nashville was No. 50.

Since the East South Central is the country's most manufacturing-intensive region, its economy is disproportionately dependent on the demand from other regions of the country. According to several company forecasts, the region's main durable goods industries (notably automobiles, rubber, metals, plastics and machinery) and its most important non-durable goods industries (apparel and textiles) expect a moderate increase in new orders, but these companies do not plan to bolster their workforces.

According to The Conference Board, the New York-based business and economic forecasting service, "The bulk of new jobs in the region will have to develop within the mostly urban service sector [in 1989] in order for the region's economy to grow at all." The report went on to warn that "shortages of highly skilled workers, particularly in the electrical and nonelectrical machinery and transportation equipment industries, will dampen potential employment gains among existing businesses while discouraging corporate relocations into the area."

Few Urban Areas in Region

The few urban areas in the region include Louisville and Lexington, Ky.; Memphis and Nashville, Tenn.; Jackson, Miss.; Birmingham, Montgomery and Huntsville, Ala.

In Mississippi, more favorable international trade conditions and higher farm prices should help bolster incomes this year. Manufacturing output, particularly among non-durables, should expand moderately in response to reduced import competition and increased export opportunities.

Growth in terms of more discount store units being added by major chains in the region has been rather flat over the last year.

Compared to regions like the South Atlantic, which saw chains like K mart and Wal-Mart increasing their store count by 20 percent to 35 percent, the East South Central is lagging.

Wal-Mart, with the most number of units other than the small 10,000-square-foot-and-under dollar stores, now has 251 stores, up 21 units, or 9.1 percent, from 230 units last year.

K mart saw fit to add a mere single unit in the region last year, and now operates 169 stores here.

Dollar General, with the most discount units, lost a store, bringing its total down to 336.

Heck's has gone by the wayside, closing nine of its 13 stores last year.

The other regional struggling to survive, Maloney's, is now operating a mere six units, down from 20 last year.

Other discounter store count changes from last year include: catalog showroom Service Merchandise added one unit, up to an even 40; Rose's added two stores and now operates 34 units; Hills, at 19 units, added four; Sam's Wholesale Club added four units, and now operates 17 in the region.

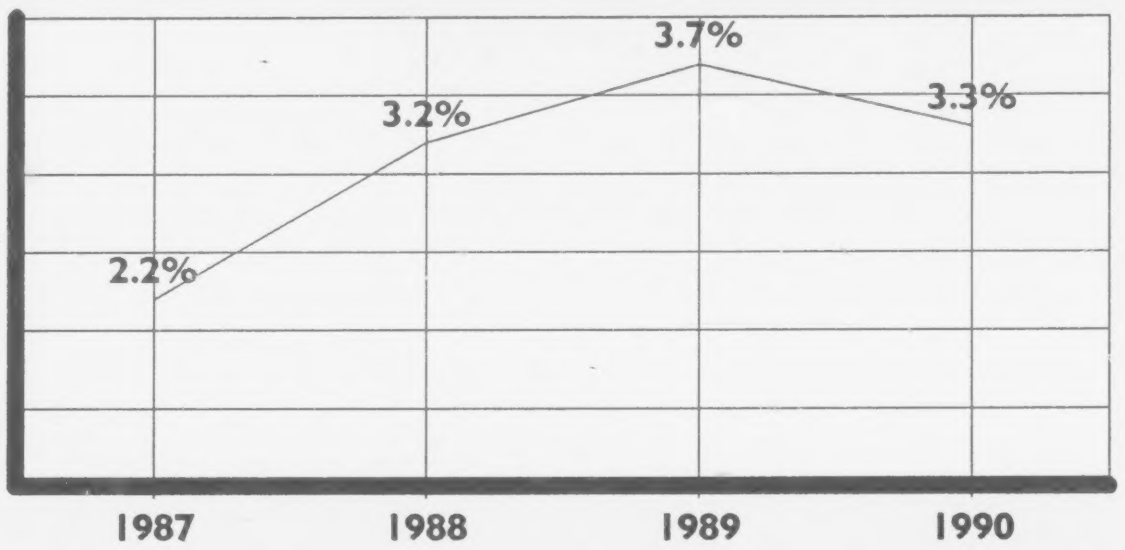
In terms of head-to-head competition by state between K mart and Wal-Mart, the latter is solidly ahead in three of the four states in the region and has a slim lead in the fourth in terms of market share of general merchandise sales.

In Alabama, Wal-Mart owns 16.3 percent of all general merchandise sales, while K mart netted 9 percent. In Kentucky, Wal-Mart had 13.0 percent and K mart had 11.0 percent. In Mississippi, Wal-Mart had a dominant 19.4 percent compared to K mart's 5.7 percent. And in Tennessee, Wal-Mart held 13.0 percent compared to K mart's 9.1 percent.

East South Central Snapshot

While the East South Central states have been among the softest in the country, increases in manufacturing output will accelerate the region's performance through 1990. Alabama and Tennessee should be the stronger states; both Kentucky and Mississippi have a larger dependence on energy production.

East South Central Discount Store Sales
(Percent Change 1987-1990)



State	Employment Percent Change Year Ago	Retail Sales Percent Change 1987-1988
Alabama	2.1%	4.5%
Kentucky	2.7	12.3
Mississippi	3.1	6.2
Tennessee	1.7	5.6
Region:	2.3%	7.0%

*projected

Source: DSN; Mount Economic Consulting

East South Central Region: Discount Store Count

Chain	Stores	Chain	Stores
Discount Dept. Stores		Value City	3
Dollar General	336	Van Leunen's	2
Wal-Mart	251	Harts	1
K mart	169	Swallen's	1
Rose's	34	Consolidated Sales	1
Hills	19	Harris Dept. Stores	1
Target	19	Catalog Showrooms	
Gibson's	20	Service Merchandise	40
Stein Mart	11	Goldbro	7
ALCO	6	Fred Gattas	5
Maloney's	6	Brendle's	2
Zayre (Ames)	6	Best Products	1
Ames	5	Warehouse Clubs	
Magic Mart	4	Sam's	17
Heck's	4	PACE	2
Sky City	3	Total:	976

Source: DSN research

A Bright Spot in a Depressed State

Birmingham, formerly a manufacturing center, added more than 10,000 new jobs to its service-based economy last year.

BIRMINGHAM, Ala. — This Southern city of nearly a million residents, which has transformed itself from a manufacturing-based center to a service-based mecca, is one of the few bright spots in a generally depressed state.

The five-county Birmingham area, which has a steadily if not dramatically increasing workforce, contains 23 percent of Alabama's population, representing 32 percent of the payroll dollars and 25 percent of both the state's total effective buying income and the state's retail sales.

In 1988, Birmingham added more than 10,000 jobs, lowering its unemployment rate to 6.0 percent from 1987's 6.7 percent. That compares to Alabama's 7.2 percent unemployment rate last year, and 5.4 percent for the entire country.

No Longer a Manufacturing Center

No longer a manufacturing center to be reckoned with, Birmingham's major employer—with over 12,000 employees—is the University of Alabama at Birmingham, a leader in medical research. One out of every ten persons in non-manufacturing jobs works in healthcare, and 86 percent of the entire workforce is in the non-manufacturing sector.

Since 1975, the city has seen a 74 percent increase in service-oriented jobs, and during the same period saw per capita personal income skyrocket by more than 90 percent.

After the university, the second-largest employer in the Birmingham area is the federal government, followed by the Jefferson County government and the Birmingham city government as the fourth-largest employer.

Of the private non-governmental employers in the top ten, the second-largest after UAB is Alabama Power Co., with 5,500 employees, followed by BellSouth Services (3,700 employees), Baptist Medical Centers (employing 3,100), Drummond Co. and Bruno's (each with 3,000 employees), and South Central Bell.

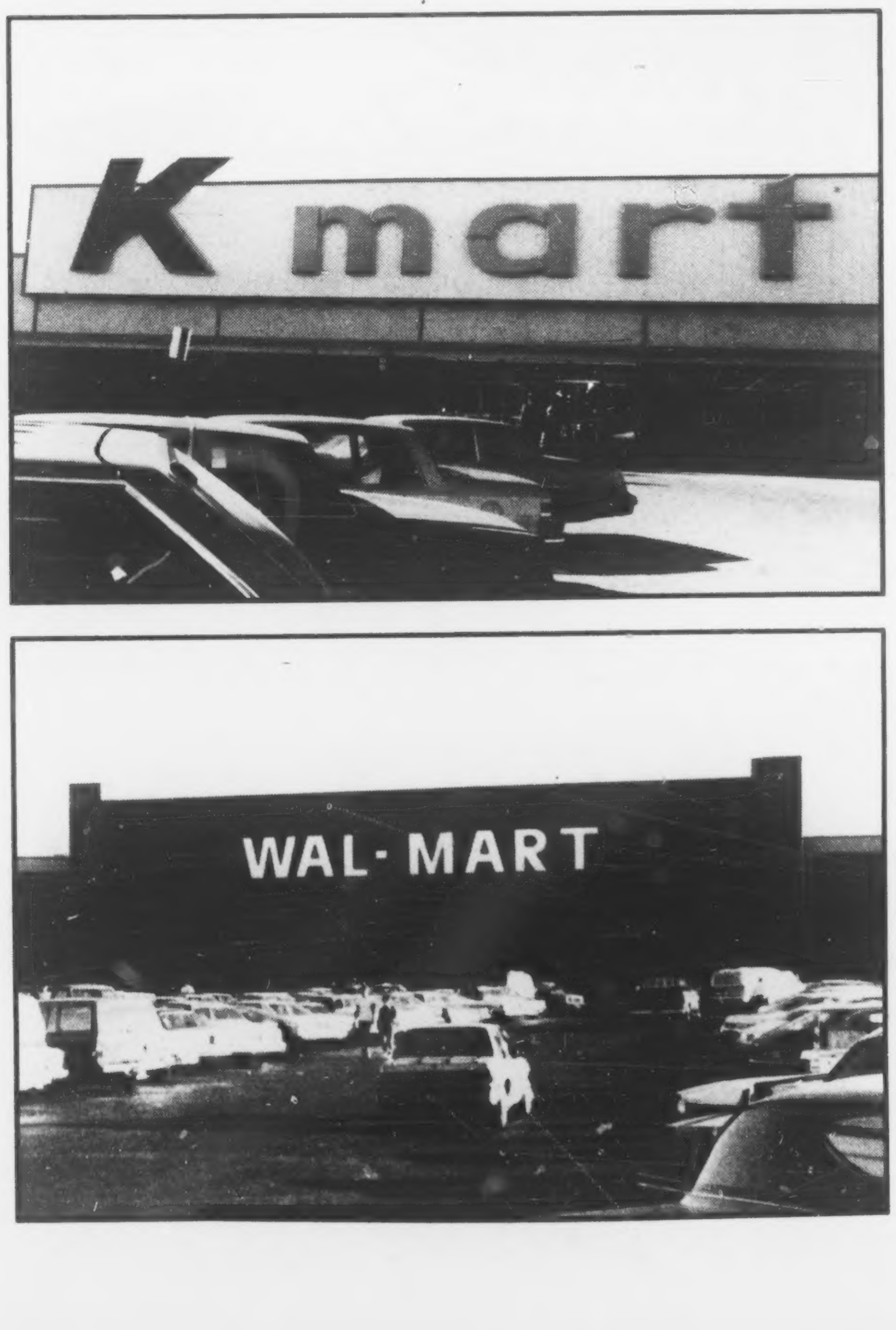
Total 1988 retail sales for the Birmingham area hit $5.9 billion last year, a modest 1.7 percent increase from 1987's $5.8 billion.

Ranked 55th in total population but 49th in suburban population, Birmingham has seen a mass exodus of persons—and hence retail establishments—from downtown.

Most of the recent construction—in 1986, counting only million-dollar-plus projects, $2.4 billion in construction was underway, announced or just completed—has been in the suburbs, especially in the retail end.

The big Woolworth's in downtown Birmingham closed at the beginning of the year, and downtown's only McRae's closed soon after.

"All the retail activity has left downtown," said Bob Bailyn, business editor of the Birmingham *News*, the city's major daily paper. "Parisian, now one of the few remaining large department-type stores in downtown, will be closing and relocating in the financial center at the upscale AmSouth/Harbert Plaza. It will reopen in October."



K mart has eight stores in Birmingham, and Wal-Mart has 10, including a new 89,000-square-foot unit in a new strip center near the extremely successful 3.3 million-square-foot, mixed-use Riverchase Galleria complex. (DSN photos)

Discount Store Count: Birmingham

Chain	Stores
Discount Dept. Stores	
Wal-Mart	10
K mart	8
Stein Mart	1
Catalog Showrooms	
Goldbro Distributors	4
Service Merchandise	1
Warehouse Clubs	
Sam's	2
Total:	**26**

Source: DSN *research*

Bailyn said that the suburban population—at 2.7 million within a 100-mile radius of Birmingham—is growing, hence all the activity is in the suburbs. Surrounding the city, all within the SMA, are 39 shopping centers of 100,000 square feet or larger, totaling almost 11 million square feet of space.

Recently opened malls and plazas include a center in Irondale, a 161,000-square-foot Marketplace at Forestdale, the 500,000-square-foot Eastwood Festival Centre, the 120,000-square-foot Tannehill Outlet Mall, the 100,000-square-foot Village in Pinson, and a 200,000-square-foot addition to Eastwood Mall.

The crown jewel among these recent additions is the Riverchase Galleria, a $300 million, 3.3 million-square-foot, mixed-use retail, hotel and office complex. Having been open a full year now, the almost 2 million-square-foot retail portion of the complex has generated an average of $285-per-square-foot in sales, far above the $170 which was planned. The anchor stores include Macy's, McRae's, JCPenney, Parisian and Rich's.

The success of the Riverchase Galleria complex, located just over a mile south of the city, prompted the opening of a nearby strip center. The major tenant is a new 89,000-square-foot Wal-Mart store.

"Wal-Mart has been very aggressive in this market, and customers have responded to them," said Bailyn. "They're planning three more stores in the area this year, and last year they opened three stores."

A K mart store manager in the area said the increased competition from Wal-Mart has made the local K marts sharper merchandisers.

"We've become more competitive with Wal-Mart through necessity," said the K mart manager, who asked to remain anonymous. "Especially on 3,000 of the fastest turning items, we've had to meet Wal-Mart's prices."

The manager said that, in general, the retail climate has been good for K mart, adding that "Zayre's closing didn't hurt us at all."

The seven area Zayre units have all been closed by Ames, the last one shuttering in early April.

While the K mart store manager said a rumor is circulating that Wal-Mart is interested in at least some of the units, Bailyn said, "That would surprise me. Of the Zayre locations that are good, Wal-Mart is already in those areas, and the other locations weren't the best. Plus, the size and configuration of the stores aren't what Wal-Mart is looking for. Wal-Mart has been putting up much larger stores."

Major Activity Is in Strip Centers

The major activity is in off-price strip centers going up around the major malls in the suburbs, Bailyn said.

He added that much of the off-price activity is in the specialty warehouses. Two new Office Depots are about to open, and recent additions include a Lechmere, a Phar-Mor and a Children's Palace.

Bailyn said that Bruno's, based in Birmingham, which partnered with K mart to open the American Fare in Atlanta and will be opening a second hypermarket in Charlotte, has no plans for a superstore or hypermarket in the Birmingham market.

"We keep asking them [Bruno's officials] and they keep saying they don't have any immediate plans," said Bailyn. "But they're very successful here, and two to three years down the road, I wouldn't be surprised to see one here."

Small Size & Convenience Are Draw

BIRMINGHAM, Ala. — Convenience is Bargain Town USA's trump card when gambling in markets where Wal-Mart is the top dealer.

The regional general merchandise chain manages to stay in the game by positioning its 12,000-square-foot stores within walking distance, if possible, of its low- to middle-income shoppers.

The small size of Bargain Town stores has also enabled the chain to locate about half of its 60 stores in markets too small to sustain even the smallest of Wal-Mart's prototype stores. Bargain Towns are in rural or small town markets in Alabama, Georgia and Mississippi.

"Our competitors do a wonderful job. But they do give up some shoppers due to lack of convenience," said Jay Kline, chief executive officer of the Specialty Retail Group, the division of Montgomery, Ala.-based Kinder-Care Inc. that operates Bargain Town and several other retail chains.

"Those are the customers Bargain Town pursues," said Kline.

Bargain Towns do best when they are located within the same shopping center as a national chain.

"Of course, the best of all possible worlds is to have no competition at all. But if that is not the case, than you better be where the action is," he said.

The person looking to buy a television set will go to Wal-Mart, as will the person who plans to spend a good piece of time shopping, Kline suggests. However, the individual who only has a few minutes to pick up a bottle of shampoo, or the mother who wants to buy a package of undershirts for her children will opt for Bargain Town instead of the larger retailer.

Kline recognizes that the smaller size of the Bargain Town stores means it cannot be all things to all people. He estimated that Bargain Town offers about 40 percent of the type of merchandise available at one of the national chains. Bargain Town tries to choose products that discount convenience store customers want.

"We don't offer the depth of selection or the number of departments that the national chains do. But we do have sharp prices on the merchandise we carry, and often have a lower starting price than the national chains," Kline said.

For instance, while the lowest-priced woven ladies' blouse at Wal-Mart might be $9.99, Bargain Town would have a different type of ladies blouse with an opening price point of $6. "We focus on the most-wanted categories; we don't have the fringe departments."

Unlike most other regional chains, Bargain Town has the advantage of being owned by a parent with fairly deep pockets. Revenues at Kinder-Care exceeded $500 million last year.

"What also separates us from other regionals is our capital base. Probably all other regional chains are the product of their own development. We bought chains which had already developed . . . We're able to compete as though we're a national chain because of our financial strength," Kline explained.

Merchandise for Bargain Town stores can be bought and sold at prices competitive with Wal-Mart because manufacturers can be assured of prompt, complete payment.

"I might not have the buying power, but I have the credit. You'd be surprised how having the credit has a lot to do with the prices you get," he said.

To keep prices at its retail divisions like Bargain Town competitive, the Specialty Retail Group is investing in a centralized, state-of-the-art headquarters and DC in Montgomery (see accompanying story). "Our goal is to have the most cost-efficient distribution center in the country," Kline said.

Kinder-Care bought the family-owned Bargain Town USA chain in October 1987 as the cornerstone of Kinder-Care's Specialty Retail Group.

Kinder-Care operates the country's largest chain of children's day care centers. It also owns Sylvan Learning Corp., a chain of franchised learning and diagnostic testing centers; Portrait Industries Corp., a school picture photography studio; Centerbanc Savings Association of St. Petersburg, Fla.; and several other investment and life insurance firms.

Bargain Town USA, Birmingham, Ala.: The chain makes up for the small size of its stores by locating them within walking distance of shoppers in small towns.

Back to School
new item
Pencil Tablet

While not offering the selection of national chains, Bargain Town offers convenience and low prices.

Bargain Town USA

Headquarters: Birmingham, Ala.*

Number of stores: 60

Average store size: 14,000 square feet

Sales (1988): $55 million

Earnings (1988): NA

Percent change sales: 30%

Percent change earnings: NA

*Relocating to Montgomery in October 1989
NA—not available

Source: Specialty Retail Group, Kinder-Care

Bargain Town tries to choose products that convenience store customers want, often offering lower prices than major chains.

Vaseline
Johnson's baby lotion
Cortizone-5
LANACANE
Baby Fresh
Q-tips

Unlike most small regional discount chains, Bargain Town is owned by a parent with an extensive capital base, giving it much stronger buying power. (DSN photos)

New, Efficient DC Set to Open in Fall

MONTGOMERY, Ala. — Kinder-Care Specialty Retail Group is scheduled to open a new, $25 million headquarters distribution and computer center here in late September.

The goal, said chief executive officer Jay Kline, is to operate "the most cost-efficient distribution center in the country."

At the same time the new complex should help the retail divisions, reduce "sales and administration expenses over the next five to ten years," Kline added. The Specialty Retail Group currently uses 261,000 square feet of distribution center space in eight locations throughout its Southern trading area. By the time operations are consolidated into the Montgomery center, a total of 300,000 square feet will be needed, Kline estimated.

The complex will initially consist of 400,000 square feet of distribution center space and 55,000 square feet of office space. The DC can be expanded to 1.25 million square feet, if necessary. Office space can also be enlarged to total 85,000 square feet.

A mainframe IBM computer shop will replace two smaller computer shops the company previously used. Integrated merchandising, distribution center and accounting software will be used at the new facility.

"Each of these softwares are considered to be at the cutting edge. They are able to be integrated so it all speaks to each other," Kline said.

The Specialty Retail Group consists of Bargain Town discount stores, Simply $6 and Max $10 off-price apparel stores and Shoe City discount shoe stores. Shoe City is already in Montgomery. The other divisions will be moving from Birmingham to the new headquarters.

Regional Analysis:

West South Central

Arkansas • Louisiana • Oklahoma • Texas

Region Sees Light at End of Tunnel

The West South Central region continues to emerge from its Oil Patch recession, with modest job growth expected to fuel retailing.

"Without question, the regional economy has been recovering for the past 18 months," said Bernard Weinstein, director of the Center for Enterprising, Southern Methodist University in Dallas.

IMRA
1 9 8 9

"Growth won't be spectacular by any stretch of the imagination," said James Newton, president of Economic Perspectives, an economic forecasting firm in Delaware, Ohio. "But compared to the past three or four years, it'll look pretty good," Newton said.

"We've seen the last of the major declines in oil prices," Newton said. "Oil's coming back, and the region recognizes the need to diversify."

Optimism for a regional resurgence can be found in the fact that Wal-Mart last year chose Wagoner, Okla., for its first SuperCenter, a combination of a Wal-Mart discount store and supermarket, and Dallas for two of its giant Hypermart USA hypermarkets.

Texas will continue to lead the region, with an expected gain of 3.5 percent in jobs compared to a regional average of about 2.5 percent. Louisiana will still trail the region, with a 1.5 percent job gain that still will provide some impetus to retail sales.

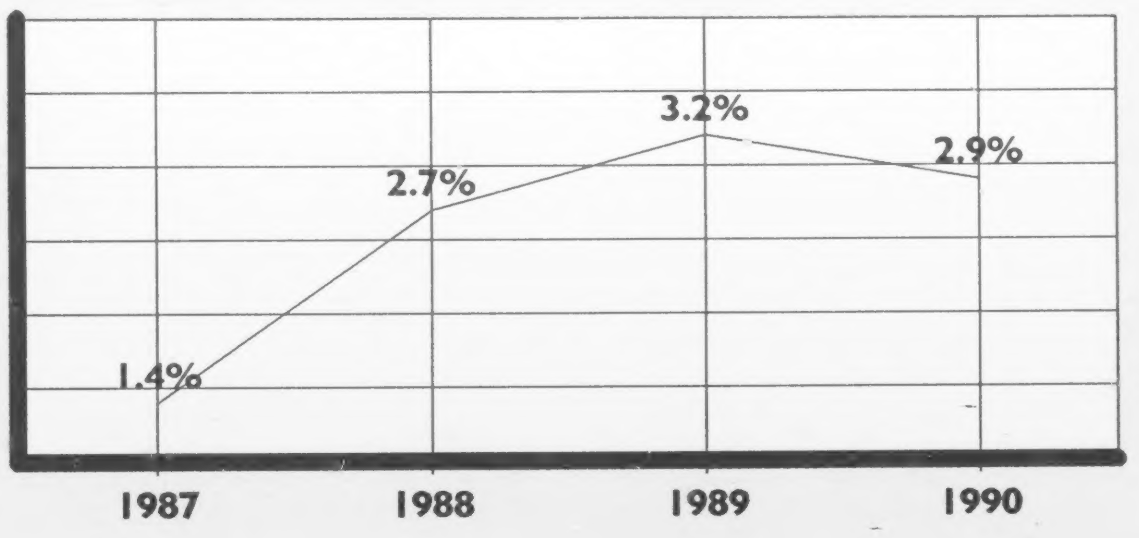
Retail sales gains will run about 5 percent, the economist predicted, with general merchandise sales doing slightly better, 5.5 percent. Big ticket items will be hurt in 1989.

General merchandise retail sales will rise by 4.5 percent in 1989 to $22.4 billion from an estimated $21.44 billion in 1988, predicted *Editor & Publisher's 1989 Market Guide*. Forecast gains will range widely: 0.1 percent for Oklahoma; 1 percent, Louisiana; 5.6 percent, Texas;and 9.9 percent ,Arkansas.

West South Central Snapshot

The West South Central states will be the softest region through 1990. Softness in energy prices, refining and mining will hold back the region, especially Louisiana and Oklahoma. Texas will be the strongest state in the area because of its diversified economy and a higher concentration in high technology, manufacturing in general, and agriculture.

West South Central Discount Store Sales
(Percent Change 1987-1990)



State	Employment Percent Change Year Ago	Retail Sales Percent Change 1987-1988
Arkansas	3.6%	1.9%
Louisiana	1.4	1.4
Oklahoma	1.7	0.1
Texas	3.0	1.1
Region:	2.7%	1.2%

*projected

Source: DSN; Mount Economic Consulting

West South Central Region: Discount Store Count

Chain	Stores
Discount Dept. Stores	
Wal-Mart	452
K mart	226
Dollar General	220
Family Dollar	189
Target	64
Gibson's	26
ALCO	15
Stein Mart	7
Catalog Showrooms	
Service Merchandise	59
Best Products	18
Fred P. Gattas	1
Warehouse Clubs	
Sam's	49
American Wholesale	1
Hypermarkets	
Hypermart USA	2
Auchan	1
Total:	1,330

Source: DSN research

Through 1990, the region will be the softest in the nation, said Richard Mount, president of Mount Economic Consulting. In a *DSN* report, Mount said, "Softness in energy prices, refining and mining will hold back the region, especially Louisiana and Oklahoma. Texas will be the strongest state in the area because of its diversified economy and a higher concentration in high technology, manufacturing in general and agriculture."

The region should see a 2.7 percent gain in jobs over 1988. Arkansas led with 3.6 percent, followed by: Texas, 3 percent; Oklahoma, 1.7 percent; and Louisiana, 1.4 percent. Total retail sales in 1988 grew by just 1.2 percent.

Discount store sales for the region should increase by 3.2 percent in 1989 to $11.44 billion from $11.09 billion in 1988. That will represent an improvement over last year's increase of 2.7 percent and 1987 gain of 1.4 percent.

In 1990, the growth rate for discount store sales will dip to 2.9 percent.

This year, personal income growth for the region will rise to 1.0 percent, adjusted for inflation, from 0.9 percent in 1988, predicted Stan Duobinis, director of regional economic forecasts for the WEFA Group, Bala Cynwyd, Pa. That will still leave it far behind the national average of 1.9 percent.

But Louisiana and Oklahoma each will see a 1.5 percent decline in personal income, Duobinis predicted.

In a positive sign, the population growth rate will increase a bit to 0.9 percent from 0.7 percent last year, Duobinis predicted. Much of the improvement will come in Louisiana, which will swing from a 0.1 percent population loss in 1988 to a 0.3 percent gain this year. Oklahoma also will turn around from the net loss of people last year to a net gain in 1989.

A critical factor for Louisiana is a bill (pending at presstime) in the state legislature to shift $200 million in state taxes from the business sector to individuals, said Dr. Loren Scott, chairman of the Economics Department at Louisiana State University, Baton Rogue. The attempt to spur the economy by cutting business taxes could go either way, he said.

Oil and gas continue to decline, Loren said, but a bright spot in the economy is the expansion of petrochemical plants. Throughout the state, 142 plants are expanding with a $4.3 billion construction program, he said.

Arkansas will see nothing really dramatic this year but instead will enjoy average growth, predicted Donald Market, director of the Bureau of Business and Economic Research at the University of Arkansas, Fayetteville.

In Texas, the most encouraging sign is an expected gain of 20,000 people in 1989, compared to a loss in 1988, said Weinstein from SMU.

For retailing, a nagging problem in Texas is that metro markets have "too many stores," Weinstein said. Shopping center developers built stores in the early '80s based on expectations of 5 percent annual job growth, he said.

It will take many years for the population and job growth to catch up to the excess stores, Weinstein said.

"I live in a fairly affluent area of North Dallas," Weinstein said. "All of my neighbors go to Sam's or to the American Wholesale Club. They get a real cross section."

In discounting, Wal-Mart and its Sam's chain continue to dominate the region. In 1987, Wal-Mart enjoyed a 21.9 percent share of general merchandise sales in Oklahoma, Jack Seibald, retail analyst for Salomon Brothers, concluded in a discount store study released this March. Wal-Mart's market share in Texas was 10.3 percent; Arkansas, 34 percent; and in Louisiana, 13.5 percent.

The market share of K mart, No. 2 in the region, was: Arkansas, 6.9 percent; Louisiana, 6.8 percent; Oklahoma, 4.3 percent; and Texas, 6.4 percent.

Another indicator of the contest: in the small town of Owasso, Okla., K mart closed its store just after Christmas, surrendering the field to Wal-Mart, the only other discounter in town. That trimmed K mart's store count in Oklahoma to 17 from 18, while Wal-Mart increased its units to 80 from 75. It operates five Sam's in the state.

In the entire region during the past year, Wal-Mart opened a net total of 33 additional discount stores and nine additional Sam's. K mart netted an increase of nine stores, while Target added five new units.

Last fall, OTASCO, a home and auto discount chain based in Tulsa, Okla., closed its 171 stores because it was unable to finance Christmas inventory and declared Chapter 11 bankruptcy. It since has reopened 62 stores, and Neil Dikeman, director of the Center for Economic and Management Research, University of Oklahoma, predicted the chain will make it following its restructuring.

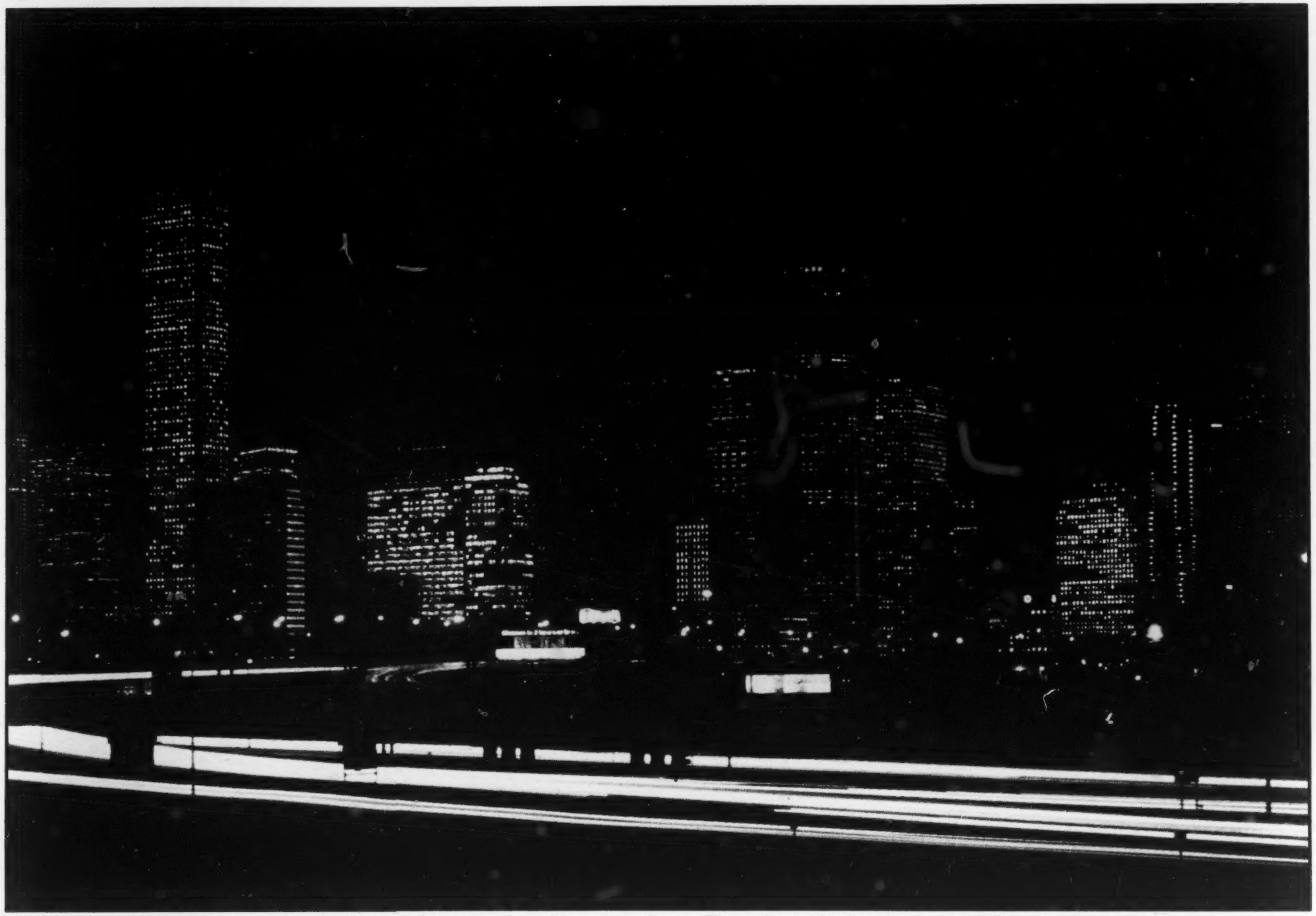
Small town retailers in Oklahoma are learning to survive in an era of Wal-Mart dominance by flocking to Wal-Mart's side to capitalize on the traffic it generates, said Dikeman. Whenever a new Wal-Mart opens, the sharper retailers tend to leave downtown and resettle next door to give customers a greater chance for one-stop shopping. Those who decline to adapt often fail.

As a result of stresses in the Texas economy, United Jewelers, a cataloger based in Houston, declared Chapter 11 last July. A year ago January, it was operating 54 showrooms. Another Texas casualty, Wilkes-Barre, Pa.,-based Jewelcor,pulled out of the Texas market,closing the last four of its Edison-Jewelcor showrooms.

Also, American Wholesale, Dallas, declared Chapter 11 bankruptcy last year. It emerged six months later after closing one of two Dallas warehouse clubs. Previously, it had closed two units in the Chicago market after less than a year of operations.

In New Orleans, Ames closed last December all 10 of the Zayre stores it acquired just five weeks before, abandoning the Louisiana market.

Low-Key Recovery Oils Economy



The energy field hasn't rebounded noticeably, but Houston has. The city is in its sixth straight quarter of slow recovery.

HOUSTON — Homeless refugees from Detroit's auto production lines camping under bridges on the outskirts of town. Unemployment lines snaking around the block. Caravans of beaten-up 1971 Fairlanes trooping out of town, headed for the promised land of California. Forests of "For Sale" signs. Cobwebbed retail and office space gathering dust.

That's the image a lot of people have of Houston. A few years ago, it wasn't far from the truth. As recently as mid-1986, unemployment stood at a staggering 12.9 percent, and home loan defaults were more the rule than the exception. The energy industry was at an all-time low, and times were tough.

Well, the energy field hasn't really rebounded noticeably, but Houston has. According to a greater Houston Chamber of Commerce spokesman, Ray Viator, the city is in its sixth straight quarter of "slow but steady" recovery, but "everybody thinks we have tumbleweeds rolling through the streets."

The city has added over 80,000 jobs over the past two years, and Viator sees that growth rate continuing. Unemployment is now down to a manageable 6.2 percent, and continues to shrink.

Small businesses are relocating to Houston, and the energy industry is "consolidating," getting used to its smaller scale and getting on with business. Additionally, there has been a mini-boom in petrochemicals, brought on directly by lower oil prices.

"According to our research, there are over 150 expansion plans on paper right now," Viator said. Those plans should account for some $5.5 billion in capital investment and foreshadow a comeback in the construction industry, he added.

Arthur Gochman, president of Houston-based sporting goods discounter Academy Sporting Goods, is similarly optimistic about Houston's potential. "The city has quietly converted its economy, becoming more diverse and less energy-dependent," he explained.

Gochman has been sharply expanding Academy's presence in Houston during the past year. The company recently moved into a massive, 500,000-square-foot headquarters building formerly occupied by AT&T, and is opening three new stores this spring to bring its total store count to 26 units, nearly all in the Houston market. Its latest opening is a 100,000-square-foot prototype, considerably larger than most of its locations.

Discount Store Count: Houston SMSA

Chain	Stores
Discount Dept. Stores	
K mart	24
Wal-Mart	21
Target	15
Catalog Showrooms	
Service Merchandise	7
Best Products	3
Houston Jewelry	2
W. Bell	1
Warehouse Clubs	
Sam's	6
Hypermarkets	
Auchan	1
Total:	**80**

Source: DSN research

Business has been good, even during the recession, Gochman said. With sales increases of 25 percent or so over the last year, the company has seen strong sales in fishing and camping equipment, perhaps as less expensive alternatives to more expensive vacation plans. However, sales of ski equipment have also increased, and Gochman projects sales of $100 million this year, up from last year's $81 million.

"The common guy is doing OK here," Gochman said. "A lot of businesses readjusted after the oil industry crashed, so we have machine shops making diesel parts and boat pontoons now, for instance. That diversification has made Houston a healthier economy underneath, and I think it will continue to recover."

Viator agreed. "In our recovery, we're hitting singles and doubles, not home runs," he said. "It's not highly visible, but we have small businesses adjusting to new markets, then expanding. We're diversifying company by company, person by person."

Houston is the eighth-largest market in the United States, larger than Dallas, and it seems to have remained a healthy retail city even in the depths of recession.

According to one discount store manager, higher-end retailers suffered the most, although sales at their stores were off for a couple of years. Today, retailers as varied as Auchan, Marshalls, Target, Toys "R" Us, Academy, Oshman's, K mart and Fiesta Mart all seem to be doing well.

The city's varied and heavily stored restaurant culture also seem to be thriving.

Houston, as a measure of its strength as a retail market, was 84th among metro areas in per household retail sales. This compares favorably to other large cities. For instance, Chicago was only 170th in the country, although it is second in population and and third in total retail sales.

Houston residents bought some $21.8 billion in retail goods in 1987, about $2.6 billion of that at general merchandise stores. Both figures are the eighth highest in the country.

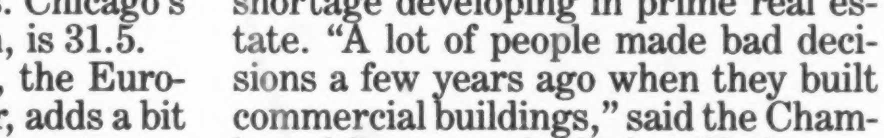
The city has about 3.3 million residents, with another 1.4 million in the suburbs. It has the sixth-largest Hispanic population in the United States and the seventh-largest black population.

The median age of Houstonians, 29.5, is significantly lower than most other major metro markets. Chicago's median age, by comparison, is 31.5.

The presence of Auchan, the European hypermarket operator, adds a bit of luster to the Houston discount market, but the market has traditionally been varied and deep. Discounters moved in with the population boom of the '70s, and they have cemented their presence through the recession, while upscale department stores and specialty outlets were having problems.

Target, Wal-Mart and K mart are the major players, and Sam's also seems to have forged a strong niche in the market.

Highland Superstores is very strong in the consumer electronics market, and Fiesta Mart, the specialty super grocery store, is perhaps the market's most successful competitor. Its combination of Latin, Oriental and other ethnic foods (including obscure Nigerian barks for tea and the like), fresh seafood (including live fish and shrimp), an incredibly varied produce department, ultra-cheap apparel (most of it, admittedly, of lower-end quality), prepared foods and various sundry kiosks selling everything from sombreros to boomboxes, has made it a favorite of non-Anglo Houstonians. It is a combination of a hypermarket and the plaza of a medium-sized Mexican town on fiesta day. The company is opening two more stores, one reported to be 180,000 square feet, and also operates several downsized convenience stores.



Target is doing well in the Houston retail market, the eighth-largest in the U.S.

(DSN photo)

The city is, of course, incredibly overbuilt given its location on the plains of Texas. Both local and highway traffic are congested at nearly all hours of the night and day, and according to both Academy's Gochman and the Chamber of Commerce, there's a shortage developing in prime real estate. "A lot of people made bad decisions a few years ago when they built commercial buildings," said the Chamber of Commerce's Viador. "Today, we have a lot of empty commercial space in poor locations, and good locations are getting scarce."

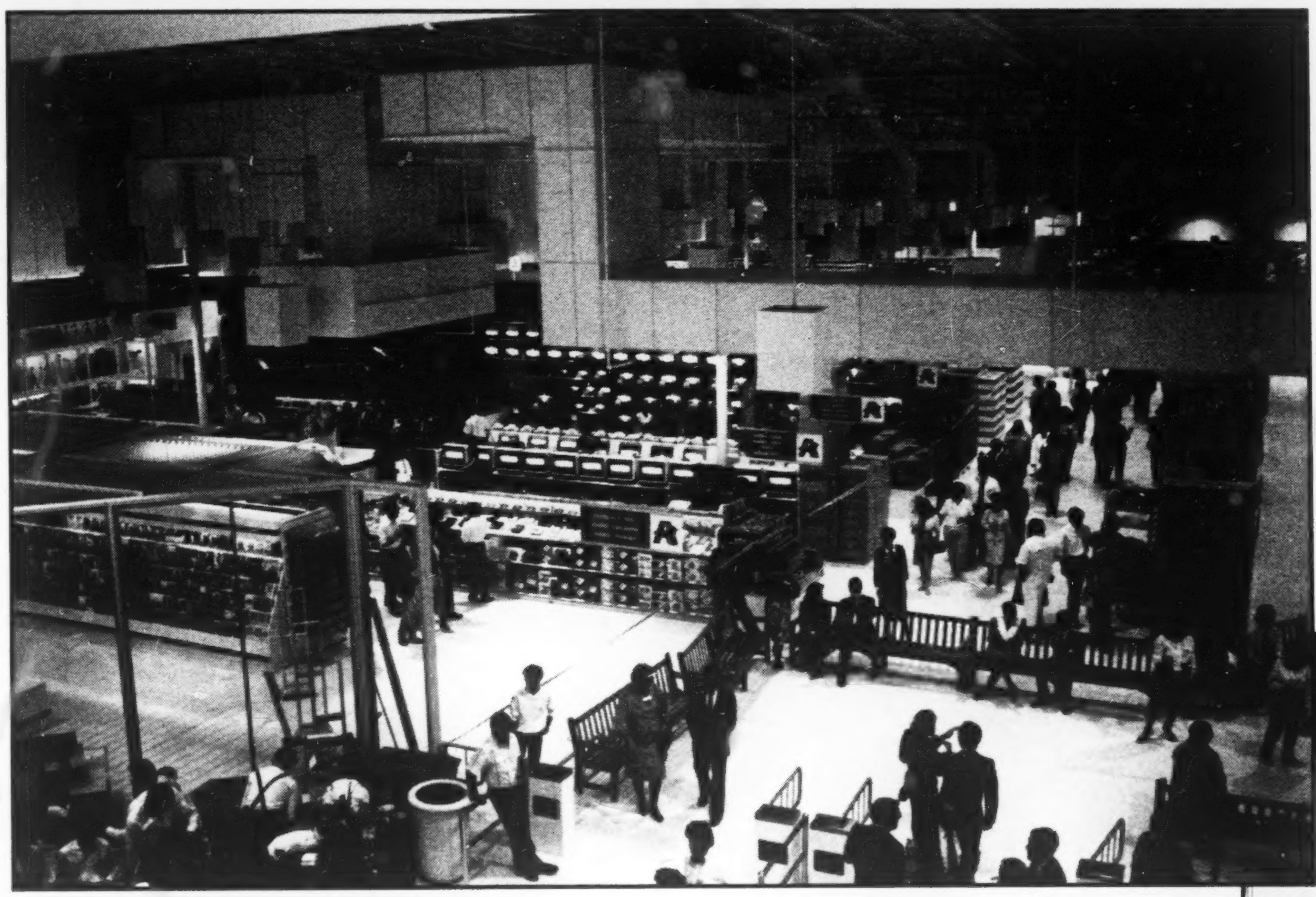
Gochman noted that the city now has virtually no desirable retail space in the 100,000-square-foot-and-over category.

Along with other economic indicators, that shortage of prime space points to a possible strong market in developing new retail centers. Whether that will materialize is open to question, but one thing is certain: Houston is no longer a ghost town.

CE Reaches New Heights at Auchan

HOUSTON — Auchan, the hypermarket retailer based here, has elevated consumer electronics to the status of power department to better compete with national discount and CE chains.

The French-owned firm may be the epitome of a regional retailer, 1990s-style: Each store (the second opened recently just outside Chicago) will be independently owned and will have its own buying and merchandising staff.



Auchan has spotlighted its consumer electronics department by putting it in the front of the store, hoping that its wide selection, low prices and superstore-within-a-store appearance will draw customers in and lead them to shop the rest of the departments in the store. (DSN photos)

That philosophy will lead to highly individualized store operations, an Auchan spokesman noted, which in turn will lead to more responsiveness to local market conditions. In Houston, an important element in the competitive stance is a first-class consumer electronics department.

Like later editions of Wal-Mart's Hypermart USA, the company has spotlighted its CE department by putting it in the front of the store, hoping that its wide selection, low prices and superstore-within-a-store appearance will draw customers in and lead them to shop the rest of the store.

Auchan's strategy is to be directly competitive with national CE chains with a strong local presence, like The Federated and Highland Superstores, by carrying a wide, upscale selection of audio and video products at aggressive price levels.

"Do we sell a lot of $2,000 projection televisions? No," commented a spokesman. "Does having them create other sales? Yes."

Depth is just as important. With 22 camcorders and 68 televisions, Auchan's selection compares with virtually any specialty store. While the 20/80 rule (20 percent of units account for 80 percent of sales) still holds, the company feels that CE shoppers need a wide selection. "They're not always shopping for what they can afford today," a spokesman noted. "Often, they're shopping for what they might be able to afford tomorrow."

The hypermarket faces a tough market in Houston. In addition to the town's widely publicized financial crisis, Houston is very well-stored at the discount level. Fiesta Mart, a local high-quality grocery/lower-quality general merchandise operation with ultra-low prices is very popular with Houstonians, particularly the city's large Hispanic population. Sam's Wholesale Club, Target, Marshalls, K mart, Toys "R" Us and many other discounters have strong, well-established presences in the city.

The company has addressed local needs by concentrating on certain popular, but highly localized, product areas. For example, the store features what might possibly be the largest crawfish display in the United States in its fresh seafood department. Given the Houstonians' love of fresh shellfish and fish, the seafood department is a very deep, well-stocked department.

Auchan	
Headquarters:	Houston, Texas
Number of stores:	1 (another affiliated store opened in Chicago)
Average store size:	180,000 square feet
Sales:	NA
Earnings:	NA
NA—not available	*Source: Auchan*

In apparel, a large part of one run is given over to rodeo wear, a significant event in Houston life. The company features cowboy boots, rhinestone-studded shirts, and other Western wear in a promotional aisle near the back of the store.

Auchan also beefed up its children's apparel department because of a perceived lack of outlets in the local market. Similarly, toys is a power department in the germination stage. Located front and center in the store, the department is very competitive in price, but still lacks selection in certain hot areas. For instance, its stock of Fisher-Price products is deep, but other products, like Teenage Mutant Ninja Turtle goods, are not carried.

It is significant that Auchan has chosen consumer electronics to act as a drawing card. As the economic situation in Houston has improved, pent-up demand for "luxury" items like CD players and VCRs has been unleashed. With one major competitor in trouble (The Federated), Auchan saw an opportunity to make a power statement.

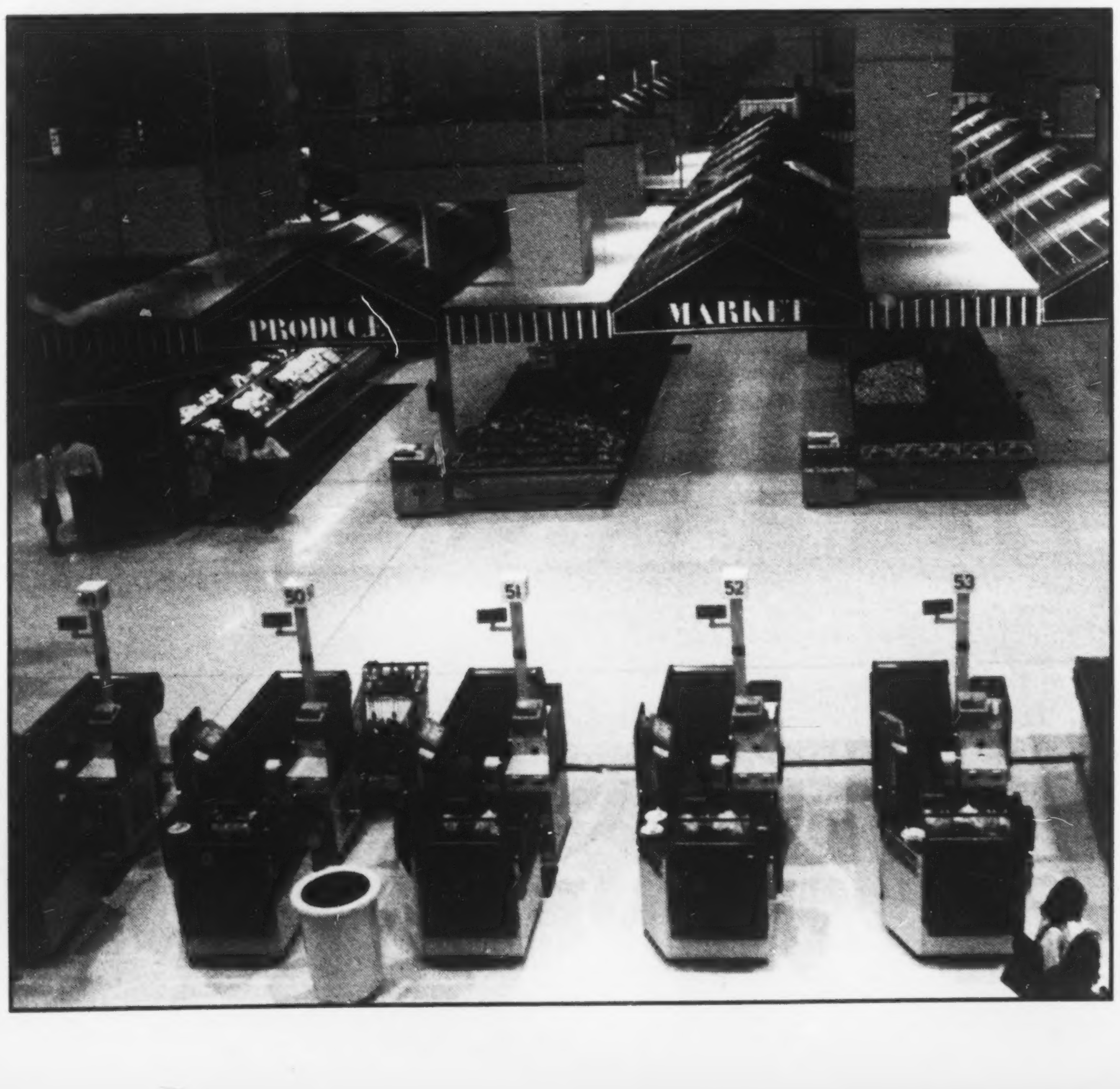
Located in the front, left-hand corner of the store, CE at Auchan is a prototypical power department. The area has wide aisles, deep displays and a wide choice of mostly upscale brands.

Prominent among those brands are Teac, Pioneer, JVC, Sony, Panasonic, Zenith, RCA, Magnavox, Brother, Canon, Minolta and Yashica.

Auchan, as a new company, had problems initially getting some market leaders to sell to it. Several suppliers envisioned a hypermarket as a wholesale club with fresh produce, and were loathe to have their products sold from warehouse racks.

Similarly, many were worried that Auchan would cherry pick their product lines, as warehouse clubs have been known to do. "We had to convince them that we would support full product offerings, not just discount a few items heavily," the spokesman said.

Auchan tends to stick to the upper end of the "good, better, best" equation, offering only limited selections at opening price points. In TVs, for instance, the price of remote models is almost indistinguishable from older clicker models, so Auchan concentrates on remote sets. Also, the supply of low-end sets has dried up as foreign manufacturers switch to alternate geographic markets (Latin America, for instance) and alternate uses for the cheap tubes (computer monitors). As a relatively new firm in the United States, it is not at the front of the line for the few low-end supplies that exist.



The same holds true, although not as markedly, in the CD player niche. "Basic CD players are becoming a commodity item," the spokesman said. "Name brands help margins a bit, but added technology is the key. Most technological 'improvements' don't actually give consumers very much for their money, but that's not true of disc changers."

Changer models, therefore, are selling better than basic one-disc items, and Auchan tends to favor that more profitable niche. "The first guy on the block with a 12-disc changer [against the maximum of six available today] will make a killing," the spokesman commented.

Auchan is particularly sharply priced in its photo department. "We price against local competition, but we also look at where our customers shop in real life," the spokesman said. One place they shop, evidently, is in New York, at 47th St. Photo, a major discount mail order outlet. Allowing for postage costs and the irritation factor of waiting for delivery, Auchan keeps prices on identical products close to 47th Street's.

As a spokesman noted, Auchan is still in the learning stages. "It's still to early to tinker with our concept," he said. "We're all still learning, at all levels."

Regional Analysis:

Mountain

Montana • Idaho • Wyoming • Colorado
New Mexico • Arizona • Utah • Nevada

Nevada Blisters; Other States Sputter

Projected slow economic growth in the Mountain region during 1989 is expected to keep the territory lagging behind the national average for the fourth straight year. Yet this gap is narrowing as portions of the region begin a slow rebound.

IMRA 1989

Encompassing deserts, high plains and the Rocky Mountains, the region includes Arizona, Colorado, Montana, New Mexico, Nevada, Utah and Wyoming. And just as the terrain is diverse, so too is the economic outlook among the eight states.

Like a year ago, Nevada remains the region's strong point because of its solid service sector and its proximity to the West Coast. Nevada, in fact, is currently the fastest growing state in the country in percentage growth of discount store sales, according to *Discount Store News*/ Mount Economic Consulting.

Nevada and Arizona also benefit economically from a relatively secure manufacturing base of advanced technology and commodity products, noted The Conference Board, the New York-based business and economic forecasting service.

Both states have also performed well in terms of new business starts and growth of existing companies. According to *Inc.* magazine, during the past four years (between 1984 and 1988), Arizona experienced a 23.3 percent growth in jobs, while Nevada enjoyed a 25.03 percent gain.

Arizona's Economy Cools Off

Employment growth was up a strong 7.9 percent in Nevada during 1988, the highest rating among the Mountain region. In neighboring Arizona, however, employment growth was considerable lower, with the state seeing only a 1.0 percent increase over the previous year.

Looking ahead, Arizona's economic picture does not expect to brighten. According to The Conference Board, several defense contractors have already laid off workers or postponed expansion plans because of national defense spending cuts. And construction has also slowed in the state because of overbuilding during Arizona's recent spurt in growth.

So while Nevada is expected to see a 5.0 percent job growth rate in 1989 and a 4.9 percent gain in 1990, Arizona is looking at only a 2.4 percent increase this year and a 2.5 percent increase in 1990, according to Ken Ackbarali, vice president and senior economist with First Interstate Bank (FIB) Corp.

Elsewhere in the region, job growth projections are at Arizona's level or even weaker. In Utah, Idaho and New Mexico, employment projections by FIB call for 2.0 percent to 2.4 percent growth rate in 1989. However, in Colorado, job growth is minimal at 1.0 percent this year, while Montana will see only a 0.4 percent increase and Wyoming will remain flat.

Projections for the region's coming year show either comparable numbers or slight improvements in generally the weakest markets.

The economic Achilles heel of these poor ranking states is still the problematic energy sector, according to area analysts. Particularly hard hit have been Colorado, Wyoming, New Mexico and Montana.

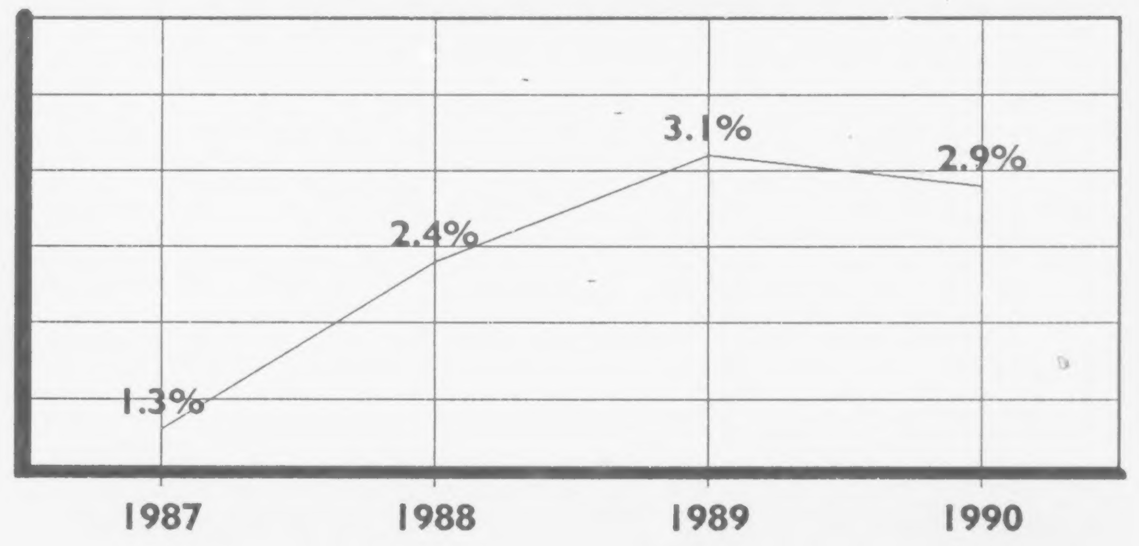
Yet while Colorado is working to constructively improve its outlook through various business incentive plans, many of these other energy states lag "in an effort to reverse their economic circumstances," according to a report by the Corporation for Enterprise Development.

Idaho is also facing problems as construction slows and adversely affects the forestry business.

Mountain Snapshot

The Mountain states will be the second-weakest market for discount store sales through 1990. While the area has a substantial energy sector, there are some major pockets of strength. Manufacturing is a major sector of Colorado's economy; agriculture is spread across the northern half of the region; forest products in Idaho are doing well because of the decline in the dollar; and Nevada remains the fastest growing state in the country because of its service sector.

Mountain Discount Store Sales
(Percent Change 1987-1990)



State	Employment Percent Change Year Ago	Retail Sales Percent Change 1987-1988
Arizona	1.0%	5.2%
Colorado	1.1	2.8
Idaho	5.5	6.9
Montana	1.4	3.0
Nevada	7.9	14.3
New Mexico	2.6	10.6
Utah	3.9	8.2
Wyoming	(1.7)	0.4
Region:	2.4%	6.5%

*projected

Source: DSN; *Mount Economic Consulting*

Mountain Region: Discount Store Count

Chain	Stores	Chain	Stores
Discount Dept. Stores		Service Merchandise	12
K mart	145	Best (LaBelle's)	8
Yellow Front	115	Value House	6
Wal-Mart	46	Best (Great Western Dist.)	2
Target	41	Associated Charter	1
Pay Less	29	Dahnken	1
ALCO	25	Jefco	1
Fred Meyer	25	Warehouse Clubs	
ShopKo	20	Price Club	6
Pamida	19	Price Savers	5
Smitty's	16	Costco	4
Fed-Mart	3	PACE	4
Catalog Showrooms		Club Wholesale	3
		Sam's	1
Best Products	17	Total:	555

Source: DSN *research*

There are a few strengths in the weaker areas of the Mountain region. Unlike the drought-stricken states in the Midwest, the Mountain region's agriculture sector is relatively strong. This area is expected to see higher prices and significant subsidy payments, according to FIB's Ackbarali.

Another plus in the region are the price increases now benefiting nonfuel mining businesses. According to The Conference Board, a strengthening in copper and precious minieral prices has helped some of the states. In Denver, for instance, the city has "become quite a hub for precious metals," with some 23 companies now in the area, according to Tucker Hart Adams, president of the Adams Group and chief economist for Central Banks.

For retailers, all of this economic information translates to sporadic sales growth throughout the region. *DSN*/MEC research shows the Mountain portion of the country registered a 6.5 percent retail sales increase over the past year. Yet, individual state results were significantly varied.

On the high end, Nevada managed a 14.3 percent jump in retail sales, while New Mexico logged a 10.6 percent increase and Utah posted an 8.2 gain. However on the low side, Wyoming registered only a 0.4 percent increase, while Colorado's sales performance edged up 2.8 percent.

Regional Discount Store Sales Lag

Looking at strictly discount store sales, the Mountain region recorded a 2.4 percent increase in 1988 as total volume rose to $4.66 billion. The rate of increase was the lowest among the nine regions. However, future projections bring the Mountain states closer to the national average.

In 1989, discount sales are expected to rise 3.1 percent to $4.80 billion, while in 1990 the rate of increase should be 2.9 percent and sales are expected to reach $4.94 billion.

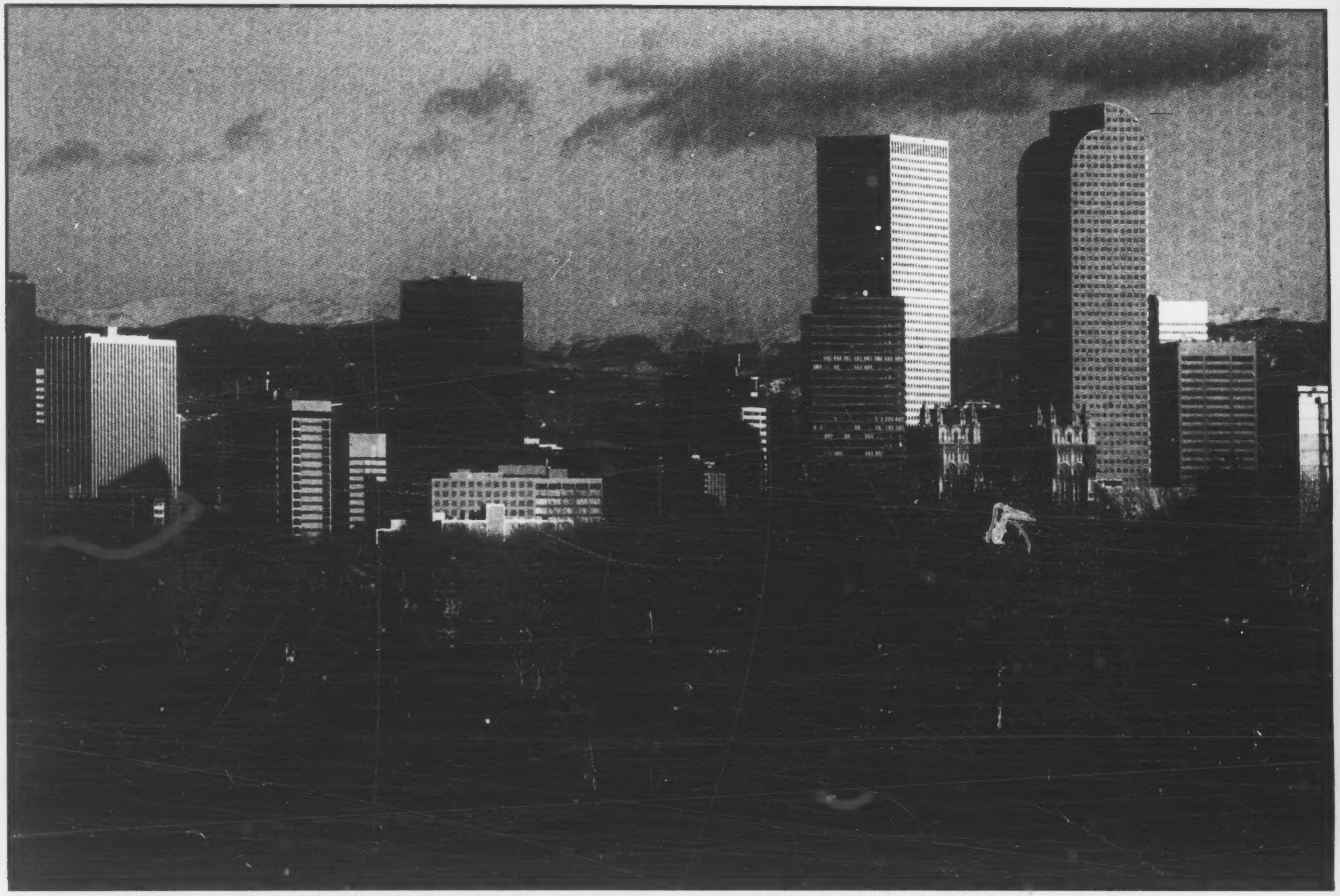
Competing for both current and future dollars are a number of full-line discounters, membership warehouse clubs and catalog showrooms.

Throughout the region, with stores present in every state, K mart holds the edge with some 145 stores in operation. Next is Yellow Front with 113; Wal-Mart, 46; Target, 41; and Pay Less Drugs, 29. Other operators include ALCO and Fred Meyer, both of which have 25 stores in the region; ShopKo, 20 units; Pamida, 19; and Smitty's, the food and general merchandise retailer, with 16 units.

Unlike some other regions, the Mountain area is not dominated by any one wholesale club. Present with almost an equal number of stores are Price Club, six; Price Savers, five; Costco and PACE, four each; and Club Wholesale, three. On a lesser scale, Sam's operates one unit in the region.

Ruling the Mountain area on the catalog showroom front is Best Products, with stores operating as Best, LaBelle's and Great Western Distributors. Combined, the chain has 27 locations in the region, while the closest competitor is Service Merchandise with 12 stores.

Denver's Rocky Road Nears an End



To Denver's long-suffering business community, signs of an economic upturn are appearing on the horizon.

DENVER — The worst appears to be over for the Mile High city. Although the economic outlook for the next 12 months is only fair, the slump that has besieged Denver in recent years may finally end.

Located in the high plains and nestled against the Rocky Mountains, greater metropolitan Denver includes six counties and encompasses some 4,497 square miles. Yet this territory, like others, has been crippled by the fall of oil prices.

Back in the late '70s, Denver was a hot market, as oil exploration and the city's scenic environment drew people from all parts of the country. While the actual work force directly involved in oil exploration did not represent the bulk of Denver's population, the industry did reach and involve many other business sectors. As Denver-based professor of economics and president of the Center for Business and Economic Forecasting Doris Drury explained, all of the services that supported the oil business throughout the entire Rocky Mountain region were based in Denver.

The combined effect helped to create a severe economic depression in Denver when oil prices fell. Like other oil-dependent cities, Denver witnessed a loss of jobs, population declines, a drop in commercial and residential construction starts, increased office vacancy space, a weakened housing market and depressed retail sales.

In 1988, population settled at 1.88 million, as migration slowed and was countered with a high birth rate. Denver's greatest population age group is under 30 and therefore in the peak childbearing years. The outlook by the Denver Chamber of Commerce calls for the population to start rising again and hit 2.3 million by 2000.

As the area grows and makes its slow recovery, the city can rely on a strongly educated populace to help make the transition. City figures show that 81.1 percent of the population has graduated high school, far exceeding the national average of 66.3 percent. Some 26.4 percent of the Denver residents are college graduates, compared to the U.S. average of 16.3 percent.

Several key points are working to drive the recovery in Denver—primarily strengthened manufacturing and agriculture.

A nationwide increase in export demand for high and low technological manufacturing has produced a recent gain of 10,000 jobs in Denver, according to economist Drury. He said another 10,000 new manufacturing jobs are expected by 1991.

Discount Store Count: Denver MSA

Chain	Stores
Discount Dept. Stores	
Target	12
K mart	11
Wal-Mart	5
Yellow Front	4
ALCO	1
Catalog Showrooms	
Best Products	6
Service Merchandise	4
Warehouse Clubs	
Buyers Club	3
PACE	3
Total:	**49**

Source: DSN *research*

According to The Conference Board, the New York-based economic and business forecasting service, Colorado is among the leaders in export-related manufacturing employment, with some 14 percent of the state's population employed in this sector. While by no means assured, The Conference Board said:

"Manufacturing, advanced technology and commodity producers should be the biggest beneficiaries of the export- and capital goods-led recovery in production nationally."

The only negative note, here, however, is that some of Denver's manufacturing is defense-related, and this could be hurt by national budget cuts.

Real Estate Funk Lures Businesses

Yet the area is drawing some new businesses, partially because of Denver's depressed real estate prices. With the recent decline, prime commercial space in Denver is available at rates considerably less than in other areas. In the third quarter of 1988, the office vacancy rate in Denver's central business district was one of the highest in the nation at 28 percent, according to The Conference Board. And, the drop in housing prices makes the area more affordable to workers and enables employers to pay lower wages.

Tourism is also on the rise. The 1988/1989 ski season appears to have been a record year, and the last summer's tourist trade was the best in 10 years, said Hart Adams, president of the Adams Group and chief economist for Central Banks in Denver. The latter category is especially important in increasing the area's share of the tourism business, noted Richard Wobbekind, associate director of the Business Research division of the College of Business at the University of Colorado at Boulder.

Although the energy sector continues to hurt the economy, area economists predict the industry has hit its trough. Currently, 111 oil rigs are in operation, and area predictions call for 126 in 1990 and 133 in 1991.

And while the construction sector is also problematic because of past overbuilding, two major projects could help boost this industry somewhat. Already, a new convention center is under construction, and this summer a new international airport will break ground in Denver. While the convention center is due for completion in early 1990, construction of the airport will provide jobs through the mid-1990s when the facility is scheduled to open.

Because Denver is a relatively small metropolitan area, construction of the convention center and airport can have a significant influence on Denver's job growth, explained Wobbekind.

In the non-agricultural sectors of Denver's economy, the employment outlook envisions an increase of 1.3 percent this year; 1.1 percent in 1990; and 2.1 percent in 1991.

At the same time, personal income and retail sales will also go up. Retail sales are expected to rise 3.3 percent this year; 2.5 percent in 1990; and 7.5 percent in 1991. Personal income should show a 5.2 percent gain this year; 5.5 percent in 1990; and 7.3 percent in 1991.

Positioned to take advantage of this income and retail sales growth are several discounters. Both Target (with 12 stores) and K mart (with 11 locations) maintain a major presence in Denver's metropolitan statistical area. Wal-Mart and Yellow Front also command area attention, and ALCO has one location.

Also doing business in greater Denver are six Best and four Service Merchandise catalog showrooms, along with two membership warehouse clubs based in the Denver area—PACE and Buyers Club.

And according to analysts, it is the greater discount sector that should fare best among retailers during Denver's path toward recovery.

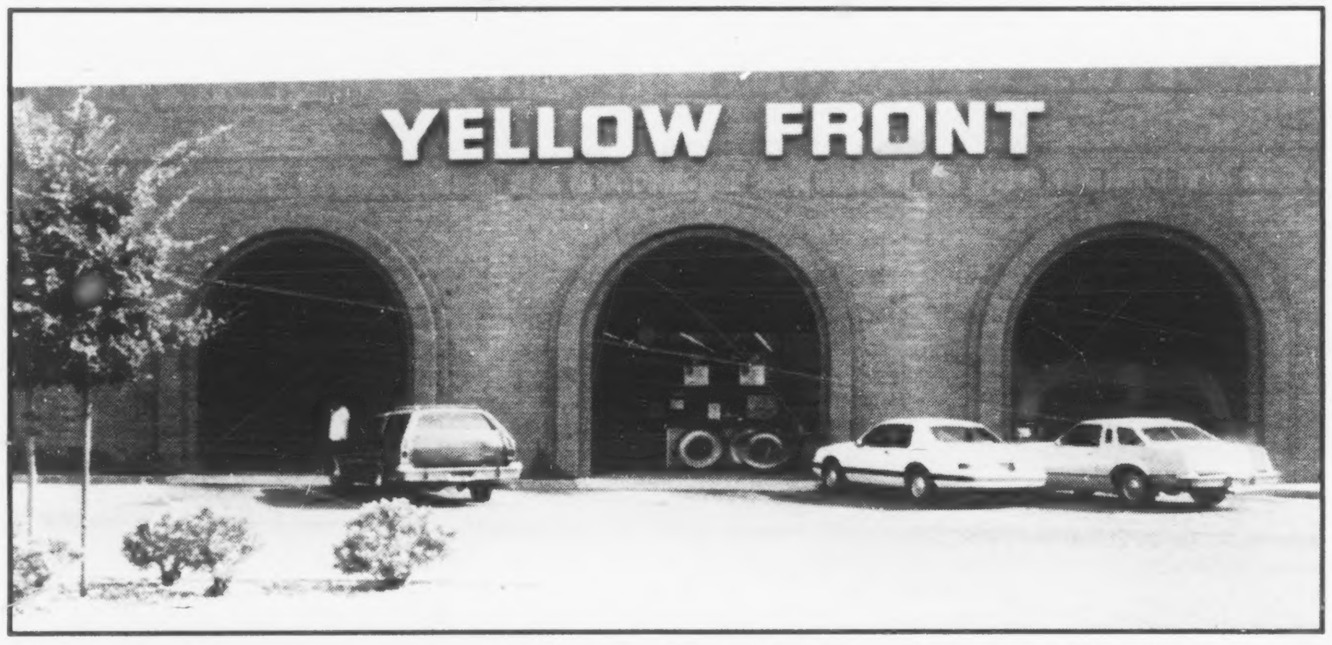
PACE is one of two membership warehouse clubs based in the Denver area.

Closeouts Fortify Yellow Front Basics

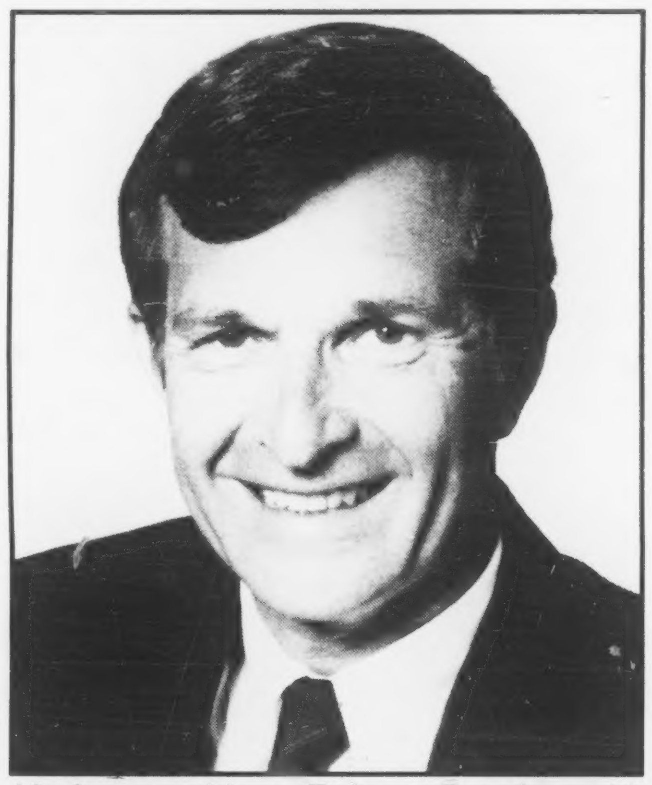
PHOENIX, Ariz. — The addition of special buys and manufacturer closeouts, along with a dedication to remaining true to its origins as a provider of basic apparel and hard lines staples, have enabled regional discounter Yellow Front to hold its own amid competition from the three largest discount chains in the country.

Yellow Front's 165 stores are spread throughout the Mountain region. Founded more than 40 years ago as a military surplus store, Yellow Front has since updated its merchandise offering while maintaining its reputation as a provider of basic goods.

Yellow Front considers itself a value-oriented general merchandise discounter. It has kept its stores relatively small—running between 8,500 square feet and 12,000 square feet in size, compared with the 50,000-square-foot to 100,000-square foot prototypes of its competitors—and it strives hard to maintain much of the friendly neighborhood atmosphere of yesteryear.



The typical Yellow Front store contains about 12,000 square feet of selling space, compared with the industry average of 52,000 square feet.



Under president Robert Bove's guidance, Yellow Front has installed a computerized tracking and ordering system.

It is this local store image, along with several other key strengths, that enables Yellow Front to go head-to-head with national discounters like K mart, Wal-Mart and Target, and and super-regional discounter ShopKo.

Although Yellow Front has recently narrowed its mix, the retailer has not lost sight of its merchandising edge in apparel staples like work clothes and hard goods. A chief mainstay of Yellow Front's selection is a strong showing of Levi's jeans, a brand that doesn't appear in many of its competitor's stores.

Chain Sells Fishing Licenses

Additionally, the chain is well known for its selection of sporting and camping goods, along with fishing and hunting supplies. Its merchandise assortment of goes beyond the usual discount store offerings to include items such as live bait and licenses. Yellow Front, in fact, sells more fishing licenses than any other source in its home state of Arizona.

Yet, in addition to these staples, Yellow Front has also added excitement to its stores in the last few years with the help of special buys. These items, bought on deal as closeouts or manufacturer overruns, can be anything from swing sets to lighting fixtures to tents.

One hot special buy last year included car batteries for $19.99. Yellow Front did so well with the batteries that some 31,000 units were sold.

The flexibility to purchase special buys like this is one of Yellow Front's competitive strengths. Unlike many large chains that are too large to react quickly, Yellow Front is small enough to move on opportunistic deals, while still having adequate size and capital to manage and finance the purchases.

In much the same way, the chain is also able to regionalize its stores merchandise mix. Because its marketing territory covers everything from small rural towns to vacation spots to major metropolitan areas, Yellow Front has become adept at specializing its mix to its market.

For instance, in smaller towns, where an automotive aftermarket chain does not exist, Yellow Front includes the most common auto parts in its selection.

Tests Different Formats

Yellow Front's size and management style also enables the chain to experiment with different formats. President Robert Bove, who took over the chain last summer when then-president Sean Lee left to join HomeClub (the Zayre-owned home improvement warehouse chain), has taken his merchandising expertise and applied it to the creation of a new concept called Just Bargains.

Currently numbering 10 of the chain's 155 stores, Just Bargains was created to go after the price-sensitive customer. According to Bove, this shopper has "been abandoned by the discount chains."

Just Bargains stores offer marked-down and closeout merchandise in categories that include food, toys, apparel, domestics, health and beauty aids, and limited automotive and hardware supplies.

Not only do the stores allow Yellow Front to reach additional customers, but the stores have also allowed the chain to inject new life into ailing Yellow Front locations.

All former Yellow Front locations, the Just Bargain sites were opened in predominately depressed neighborhoods—areas that could no longer support a Yellow Front, but which still held good real estate value and marketing potential.

So sites in areas such as Denver that have seen hard times, where other retailers might have abandoned the stores, Yellow Front resurrected the locations.

While Just Bargains keeps its advertising budget low, Yellow Front stores' ad dollars have increased in recent years as the chain looks to gain additional market share. Advertising was improved and, in the case of radio ads, the chain actually made fun of itself and its long-standing reputation for campiness.

Some of these ideas were initiated under Lee's leadership. It was Lee, along with other Yellow Front management and New York-based Kenmare Capital Corp., who financed a leveraged buyout of the chain from Lucky Stores in 1987. Not long after buying the chain, Lee moved to acquire the 64-store Bonanza chain to help extend Yellow Front's territory.

Now under Bove's guidance the chain has sought to keep pace with other retailers by exploring updated management information systems. Just last year Yellow Front installed a computerized tracking and ordering system to enhance both buying and distribution operations.

This year stores are receiving hand-held order entry devices to help track and order inventory.

And, while the chain still has some fine-tuning in its future, Yellow Front has been holding up well against the competition. Although year-end figures for 1988 have not been released yet, prior projections placed the discounter's sales at approximately $220 million, up from $149 million the previous year.

Yellow Front

Headquarters: Phoenix, Ariz.

Number of stores: 155
(145 Yellow Front stores and 10 Just Bargain closeout stores)

Average store size: 12,000 square feet

Sales (1988): $220 million*

Earnings (1988): NA

Percent change sales: 49%

Percent change earnings: NA

**estimate*
NA—not available
Source: Yellow Front

Among the ways Yellow Front has distinguished itself from competitors are: recently introducing Just Bargains (right), a merchandising format aimed specifically at price-sensitive shoppers; organizing special buys of closeout merchandise (below); and (bottom) creating additional traffic in its hunting and fishing departments by selling live bait and fishing licenses. (DSN photos)

JU$T BARGAIN$

SPECIAL BUY
SAVE
VALUE
OUR PRICE

LIVE
BAIT
SOLD HE
BASKET
SHOPPING

Regional Analysis:

Pacific

Washington • Oregon
California • Alaska • Hawaii

Nation's Bright Spot Begins to Dim

The Pacific region's economy looks solid in the coming months, thanks mostly to the strength of California and Washington.

However, the disparity between the region and the rest of the country is lessening as the nation experiences a "rolling" recession.

IMRA 1989

Making up the Pacific region are California, Oregon, Washington, Alaska and Hawaii. Although still the bright spot in the country, the Pacific region has begun to lose its luster.

Long one of the nation's economic growth leaders, California is expected to experience a slowdown in its energetic pace in the coming months, but will still outpace much of the nation. Although previously lauded for its economic diversity, the lack of one strong industry is now considered a drawback, according to David Hensley, a business forecaster at the University of California at Los Angeles.

Hensley said the state's only major stimulus has been the growing housing market. However, with increasing interest rates nationwide and the double-digit increases in home prices in California, fewer people are able to purchase a house.

California's Housing Costs Soar

In 1988 alone, California's median housing price soared 18.4 percent, according to the state's Association of Realtors. In Los Angeles, the inflation rate was even higher, with prices rising 32 percent over a six-month period.

Although new home sales and resale activity are still strong, the pace has already slowed and will continue to do so in the coming months.

Adding another negative pull on the state, and in effect the entire Pacific region, is the decline in defense spending. With numerous large companies throughout the state depending on defense-related contracts for their livelihood, the drop in spending is already having adverse affects.

According to UCLA forecasters, many defense-oriented aerospace companies are already struggling to maintain current employment levels, and the outlook calls for a 0.9 percent job loss this year and a 3.3 percent job drop in 1990.

Yet despite this adversity, both California and other Pacific states, such as Washington, are benefiting from increased commercial aircraft orders.

In Washington, where Boeing is still a major employer, airplane back orders will supply jobs well into the '90s. California, too, benefits from both Boeing and McDonnell Douglas via aircraft manufacturing and sub-contracting work, noted Federal Reserve Bank economist Carolyn Sherwood-Call.

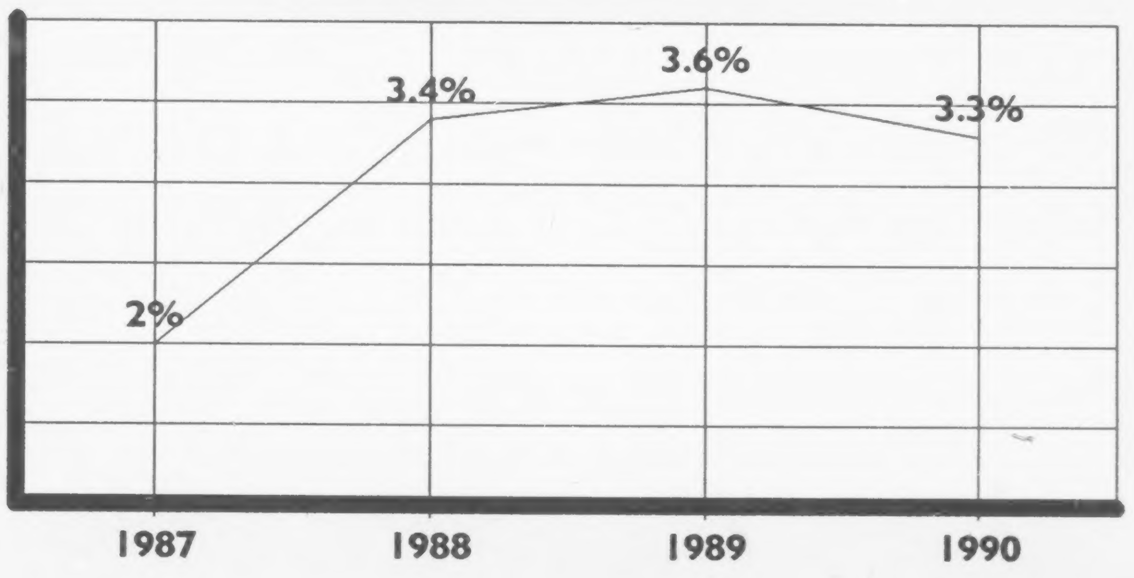
"Certainly a slowdown in defense spending is not the greatest, but a strengthening in other areas—high tech and aerospace—keeps the area in very good shape," explained Sherwood-Call.

Other positive notes in California include a strong agriculture market and healthy tourism business.

Pacific Snapshot

The Pacific states will exhibit growth at, or slightly above, the national average. California had been exceptionally strong during the current expansion, but a slowdown in defense spending and problems with high new home prices will reduce the rate of gain for the next two years. Oregon and Washington are very strong now as domestic production and exports of lumber and wood products are growing. This advance is not sustainable as the U.S. economy slows and national housing starts weaken. Alaska remains troubled by its energy sector. Hawaii will slow somewhat, propelled forward by tourism, but restrained by defense and construction activity.

Pacific Discount Store Sales



State	Employment Percent Change Year Ago	Retail Sales Percent Change 1987-1988
Alaska	2.0%	1.0%
California	3.6	6.4
Hawaii	3.8	3.5
Oregon	5.1	11.5
Washington	5.4	7.6
Region:	3.9%	7.1%

*projected

Source: DSN; Mount Economic Consulting

The economy of the state of Washington is buoyed by strong aluminum, shipping and electronic industries, according to The Conference Board, the New York-based business and economic forecasting service.

Beyond these two states, the rest of the region has a mixed outlook.

In Oregon, domestic and export production of the lumber industry has helped the state. However, a projected nationwide housing slowdown will put a damper on the current growth rate, according to Ken Ackbarali, vice president and senior economist with First Interstate Bank Corp.

Pacific Region: Discount Store Count

Chain	Stores	Chain	Stores
Discount Dept. Stores		Hartman's	10
Pay Less	240	Best (Jafco)	8
K mart	218	Volume Merchandising	3
Target	103	Capital Jewelry	2
Fred Meyer	74	Jewelcor	2
Bi-Mart	38	Direct Buying Service	1
Yellow Front	27	Jefco Merchandise	1
G.I. Joes	10	R. Rich	1
Fedco	9	Walkenhorst	1
Gem of Hawaii	5	**Warehouse Clubs**	
ShopKo	4	Costco	34
Holiday Mart	2	Price Club	24
Tri-State Dist.	1	PACE	10
Catalog Showrooms		Price Savers	8
Best Products	41	Club Wholesale	2
Service Merchandise	13	Total:	892

Source: DSN research

Ackbarali said Oregon will see some support, however, from computer and consumer electronics growth.

"Oregon looks pretty good for the next year or so, but it's a little more uncertain picture than Washington and California," offered Sherwood-Call.

Hawaii's outlook is also looking fairly bright because of a strong construction market, and low unemployment and vacancy rates, Sherwood-Call said. She also noted that Hawaii's tourism is also on the rise, with a portion of the increase coming from typically higher-spending visitors from Asia.

In Alaska, the state appears to have seen the worst. Although still a drag on the rest of the region because of its dependency on energy prices, Alaska is beginning to see slight economic improvements.

In fact, Alaska recorded a 2 percent employment growth in 1988 last year, while retail sales grew 1 percent.

Discount Store Sales Show Strength

As a whole, the region saw retail sales climb some 7.1 percent in 1988, with the largest growth rate coming from Oregon's 11.5 percent increase.

Discount store sales alone grew by 3.4 percent—the highest among all of the nation's regions—in 1988 to $7.99 billion, according to *Discount Store News*/Mount Economic Consulting.

In 1989, the Pacific region is expected to outpace the national growth rate of 3.3 percent. A 3.6 percent projected increase will produce some $8.28 billion in sales for the region. However, for the first time in a while the East South Central region is expected to eclipse the Pacific in percentage sales growth, with a 3.7 percent increase.

Grabbing a share of these retail dollars throughout the region are national retailers K mart and Target. K mart easily holds the edge in terms of store numbers, as the Troy, Mich.-based chain operates 218 stores in the region.

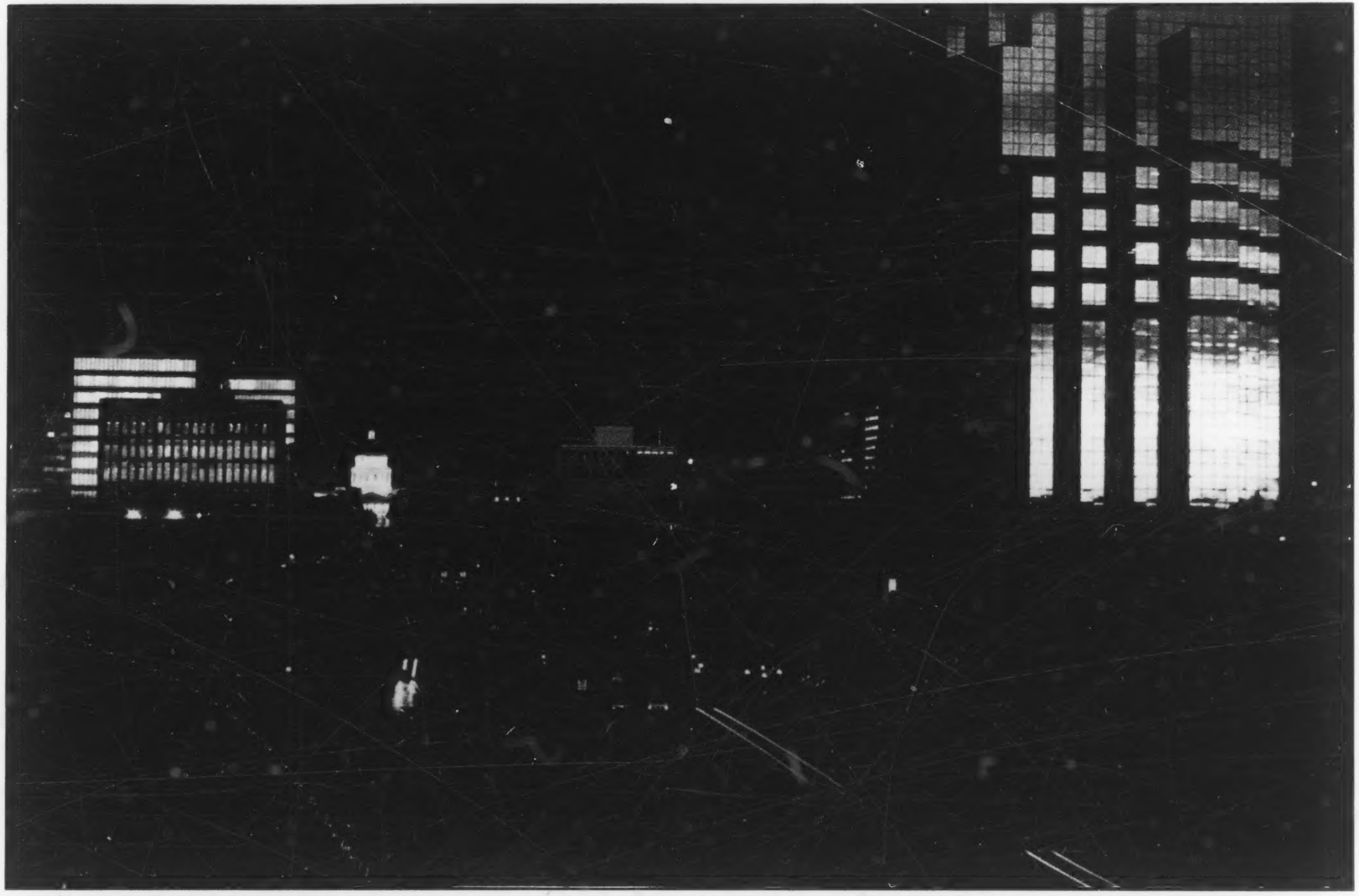
Meanwhile, Target, with 103 stores in the region, continues to increase its presence through new additions. During the past year, the Minneapolis-based chain entered Washington and Oregon for the first time, and plans call for more sites in these two states this year. Green Bay, Wis.-based ShopKo is also looking to hit these two states with stores, building on its current base of four Washington locations.

Several regional chains also command consumer dollars in their respective areas. In Southern California, locally based Fedco garners strong retail sales with its nine locations, while in the Pacific Northwest, Portland, Ore.-based Fred Meyer remains the dominant player.

Several local membership warehouse clubs also snare a portion of the Pacific region's retail volume. Seattle-based Costco operates the most sites with some 34 locations in operation, while San Diego-based Price Club has 24 sites. Added competition comes from two Mountain region-based chains PACE and Price Savers.

The region's catalog showroom business is dominated by Best Products, although Service Merchandise and Hartman's also command attention.

Capital's Affordability Fuels Growth



With housing costs half the levels of those in the Bay Area, Sacramento has attracted a steady white collar influx.

SACRAMENTO, Calif. — California's capital is currently reaping rewards for *not* being one of the state's expensive coastal cities.

Both businesses and individuals looking to escape the high cost of operating and living in major metropolitan areas such as San Francisco and Los Angeles have recently turned toward inland cities like Sacramento. Between 1980 and 1985, Sacramento's population swelled by some 13 percent, according to *Sales and Marketing Management's* 1988 Survey of Buying Power.

Once known for the gold rush that began in 1849, Sacramento has since emerged as a growing and vibrant city. Stretching through four counties and some 3,555 square miles, greater Sacramento's population now numbers some 1.3 million people.

City Attracts Young Adults

And like many of the hot and growing markets in the United States, Sacramento has a relatively young populace, with the majority of the adults aged 25 to 44 years old. By 1991, Sacramento is expected to hold some 1.45 million people.

Currently, the bulk of the citizens reside in Sacramento County. However, El Dorado and Placer counties are experiencing the greatest growth rates. Both counties are located east of the city and are reached by major freeways and mass transportation.

Supplying Sacramento's population with a large share of its employment base is the government. The state is the largest employer, followed by McClellan Air Force Base and the Sacramento County Office of Education.

Sacramento has broadened its economic base in recent years, which has been a sound economic move for the city, according to Bob Skinkle, assistant vice president and economist at Wells Fargo Bank in San Francisco. In 1980, the government employed some 34.15 percent of the population, while in 1987 that figure dropped to 29.76 percent.

Taking up the growth in the private sector are many services, trade, agriculture and construction businesses. The top three non-government employers include Aerojet General Corp., Pacific Bell and Sutter Health.

Combined, all the business sectors kept unemployment levels running between 4.9 percent and 6.0 percent during 1987 and 1988, according to state figures.

Both existing and new businesses find several Sacramento features particularly beneficial. One key attraction is Sacramento's real estate market, which boasts relatively plentiful housing at lower costs than what is available in the nearby Bay Area.

Yet, Sacramento remains close enough to San Francisco to make the inland city an ideal distribution and transportation center. Both Target Stores and Pay Less NW drug stores have opened new distribution centers in the area during the past few years.

Sacramento an Inland Port

Not only do major railroads and freeways cross Sacramento, but the city is also considered an international port because of its waterway access via the Sacramento River.

"A lot of the growth [in California] is happening in the areas that are accessible to major cities, but far enough away from the high cost of land and traffic congestion," said Carolyn Sherwood-Call, economist with the Federal Reserve Bank in San Francisco.

Sacramento's lower real estate prices help provides workers with cheaper-than-coastal housing prices, which in turn allows employers to choose from a large work force and pay lower-than-usual wages.

As of 1987, the median house price was $98,539, according to the city's Chamber of Commerce. This price is less than half of the $207,490 average price tag for homes in San Francisco. And unlike the 35 percent to 50 percent increases witnessed in the hot coastal cities, Sacramento's annual housing price increases have hovered around the 15 percent mark.

Yet while existing housing prices have seen a gradual increase, new residential permits have nearly doubled between 1983 and 1985 alone.

Filling these houses are residents that, as of 1985, had an annual effective buying income of $16.8 billion, some $8.09 billion of which was spent on retail sales. According to *Sales and Marketing Management*, area retail sales should reach the $12.8 billion mark by 1990.

Until the past year, K mart had been the leader among national discounters, grabbing a sizable share of retail dollars through its 13 locations. Now Target has firmly established itself in the Sacramento market with nine locations. The Minneapolis-based discounter entered the Sacramento market last year via the remodeling of several former Gemco stores.

Now these two discounters battle for consumer dollars along with membership warehouse clubs Price Savers and Price Club.

Also snaring a part of the market are three Best catalog showrooms and several off-price chains. While Marshalls and Ross Stores have operated in Sacramento for some time, T.J. Maxx entered the market a year ago. The latter chain's first site in Sacramento's Roseville suburb was the off-pricer's initial location in the entire state.

Economists expect Sacramento will continue to be a popular city for retailers. With government sectors providing steady employment and the increasing non-government industries providing economic diversity, Sacramento should remain economically sound for several years to come.

CHUTES AND LADDERS

Right: Having entered the region only last year, Target now has nine units in operation in the Sacramento market. Below: T.J Maxx last year selected the Sacramento suburb of Roseville as the site of its first store in California. (DSN photos)

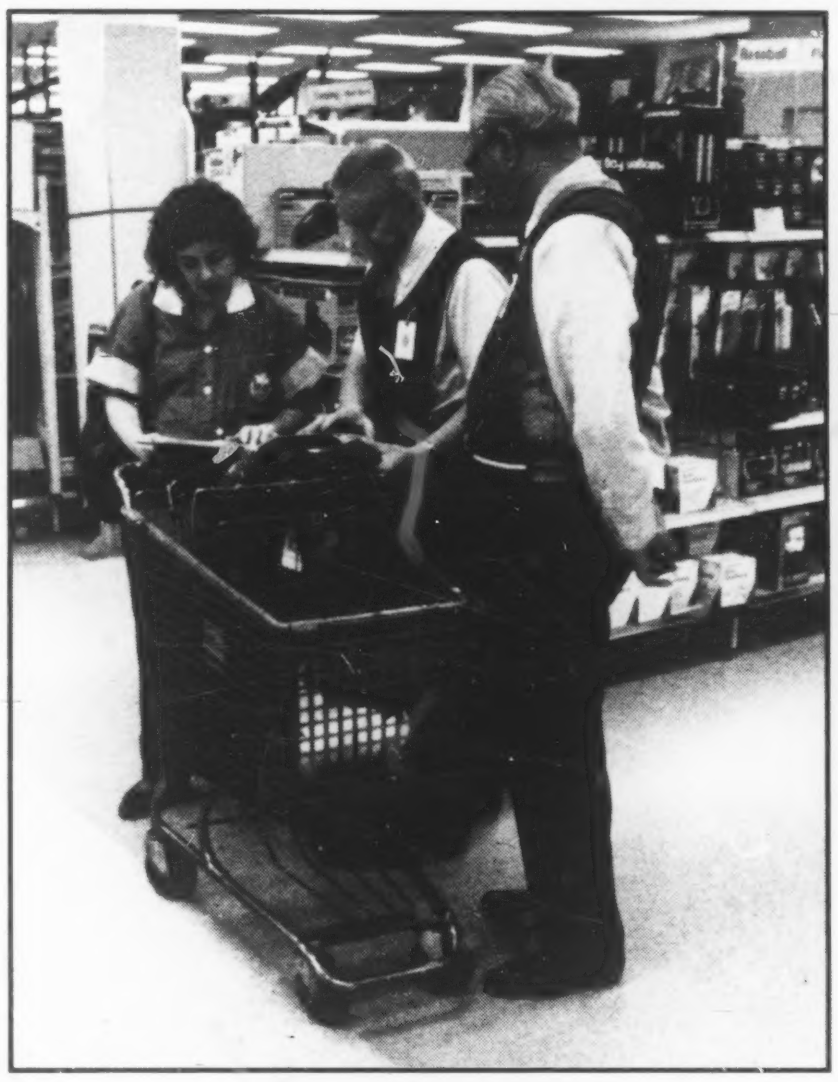
Discount Store Count: Sacramento MSA

Chain	Stores
Discount Dept. Stores	
K mart	13
Target	9
Warehouse Clubs	
Price Savers	3
Price Club	2
Catalog Showrooms	
Best Products	3
Total:	**30**

Source: DSN *research*

IMRA '89: Fedco

Breadth, Pricing Key Fedco's Success



Although Fedco does little advertising, the chain is able to draw crowds every day chiefly through word-of-mouth and warehouse club-level prices. Left: Customer service is one of Fedco's more potent weapons against its competitors.

SANTA FE SPRINGS, Calif. — Battling against several national discounters and numerous membership warehouse clubs, Fedco quietly holds its own against its larger competitors in Southern California.

The only major discount store that still maintains a membership policy, Fedco operates nine full-line stores plus three furniture/appliance units.

Housed within the 180,000-square-foot stores are some 100,000 sku's that cover a broad base of product categories. It is this mix, along with sharp everyday low pricing, that gives Fedco a strong position in the market.

Although K mart and Target operate their full-line discount stores in Fedco's home territory, neither of the outsiders has a merchandise mix that can rival the diversity and depth of Fedco.

At first glance, Fedco does not appear to have the merchandising sophistication of a Target or K mart. In Fedco's case, though, looks are deceiving.

Not only does Fedco cover the basic discounter departments, but the chain also carries groceries, a bakery, a restaurant, upscale consumer electronics (via a leased department arrangement), pharmacy and home office equipment. And, within a given typical category such as plumbing, Fedco's selection rivals that of a small hardware store.

POS Scanners Installed Chainwide

Although smaller in terms of store numbers than many of its competitors, Fedco is technologically in step with many of its rivals. Last year, Fedco installed point-of-sale scanners to all stores' general merchandise registers, while the grocery departments had already been using them for some time.

Fedco also goes toe-to-toe with such membership warehouse clubs as Price Club, Costco, PACE and Price Savers. Against these chains, Fedco primarily competes for customer dollars in departments like consumer electronics, housewares, household cleaners, liquor/beverages, pet supplies, domestics and food.

Yet even against the area's generally successful membership warehouse clubs, Fedco carries its advantages.

Unlike the $25 yearly membership fee at places like Price Club and Costco, Fedco offers a lifetime membership for $10. (Until this past year, the fee was only $5).

Aware of this advantage, Fedco recently pointed out the membership fee difference in its monthly Fedco Reporter catalog with the statement: "At Fedco you pay $10 once for a lifetime membership, not $25 a year for the rest of your life."

Membership qualifications are also much less rigorous at Fedco than at the other clubs, so the discounter is able to attract a larger shopper base. While Fedco, too, goes after many of the same individual members, the chain also offers cards to military personnel, full-time adult students and people on social security or disability. Combined, these less restrictive qualifications provide Fedco with some three million members.

And as with most discounters, Fedco carries a broader selection of merchandise than membership warehouse clubs. With little advertising and everyday low prices, Fedco is able to match the clubs' prices, while offering more sku's and a higher level of customer service.

Like a Price Club, Fedco is able to draw heavy crowds on a daily basis. Other than a monthly catalog, Fedco does little advertising, so customer attention comes typically by word of mouth.

The average crowd at Fedco is so large that some of its top stores actually provide additional parking across the street from the store.

However, customer loyalty can mean nothing if the shoppers aren't expressing their affection by spending dollars. But in Fedco's case, customer loyalty definitely translates to strong sales volume.

Having just calculated year-end results for fiscal 1989, Fedco posted some $684 million in sales during the 12-month period. This volume was realized with the same number of stores as in fiscal 1988, when sales were approximately $1 million lower.

At $4.54 million, net earnings were somewhat lower than the past year, however this drop was due to a change in inventory accounting methods and an extraordinary gain in fiscal 1988.

Looking strictly at income before taxes and adding in the loss due to the inventory change, Fedco actually performed better in fiscal 1989.

No Immediate Expansion Planned

Yet despite its success, Fedco is content to stay within its market. In fact, because the chain is a non-profit mutual benefit corporation, Fedco is prevented from selling stock to raise capital for expansion. Instead, the chain must rely on its internally generated funds, which keeps future progress on a relatively slow, but steady path.

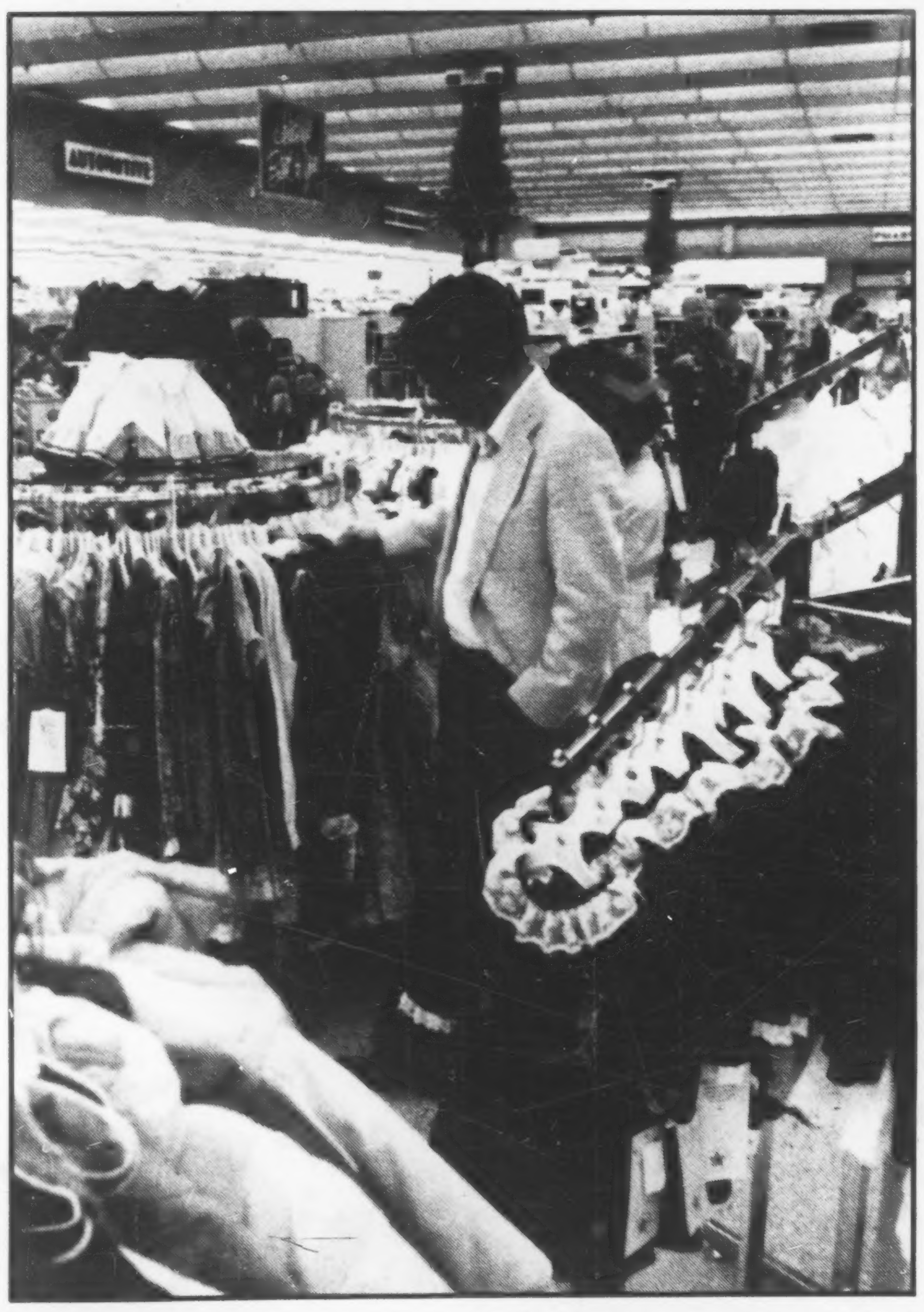
However, the chain has generated enough funds to update and remodel many of its stores. Last year, the Pasadena location received a $5 million facelift that enlarged the on-site warehouse and expanded selling floor space by 16,000 square feet.

So while Fedco is not ready to become the next K mart, this regional discounter has a brighter future than most and is positioned to give any retailer a run for customer loyalty and dollars in Southern California.

Fedco

Headquarters: Sante Fe Springs, Calif.
Number of stores: 12
(9 full-size stores and three furniture/appliance stores)
Average store size: 180,000 square feet
Sales (fiscal 1989): $684 million
Earnings (fiscal 1989): $4.54 million
Percent change sales: 0.13%
Percent change earnings: (21.0%)

Source: Fedco



Fedco's 180,000-square-foot stores house an unusually broad assortment of goods in each department, including apparel.

(DSN photos)

In an effort to attract a larger customer base, Fedco, the only major discount store still maintaining a membership policy, has made the qualifications to join comparatively less restrictive.

Retailers: Will the '90s Be the Decade of the Home?

By Harvey D. Braun

With the 1990s fast approaching, what can retailers look forward to?

Demographically, the baby boomers will still dominate, but they will be in their 40s. Through the power of their numbers, they will make "maturity" fashionable, as they made "youth" the credo of the '60s. And in their maturity the boomers—and all of us who will be bombarded by advertising directed at them—will be more concerned with the home.

That concern will stem partly from the boomers' sense of economics. They know their homes represent their greatest investment, that one-third of America's wealth is tied up in owner-occupied single-family homes. The boomers will spend what's needed to maintain and enhance the value of those investments.

They will also place strong emphasis on home because they will be raising families. They've heard the ticking of their biological clocks and in the 1990s the products of those innate urges to procreate will be in school. At home those children will need desks, bookcases, encyclopedias, computers and many other things attendant to growing up and going to school.

Percent of Shoppers Planning Major Purchases with No Store Preference or Loyalty

Men's Clothing	37.2%
Women's Clothing	50.1%
Children's Clothing	72.6%
TV, VCR	45.1%
Stereo Equipment	54.0%

Source: Impact Resources

What would this focus homeward mean for retailers? In a recent survey, Impact Resources of Columbus, Ohio, exclusively affiliated with Touche Ross, found that in a sample of more than 200,000 shoppers nationwide, almost 35,000 of them (17.5 percent) plan to make a major purchase during the next year. What are these particular shoppers like, these who plan major purchases in the next year? They seem much like our boomers moving into maturity.

For example, we find these "purchasers" to be 36.7 years old, and almost 54 percent are married. More than one-quarter are college graduates and another 35 percent have had some college. They have an average household income of $35,200 with a tidy 3.0 persons in each household.

Almost 53 percent of these intended purchasers own their own home; 62 percent of those homes are houses and 6 percent are condos. More than three-quarters of them make repairs around the house themselves, and 38 percent work on their own cars. Seventy-eight percent are white.

Sixty percent have cable TV and more than 70 percent have a VCR; 29 percent have a home computer; 77 percent have a microwave oven; and almost 60 percent use automated teller machines. Is the image of the baby boomer coming into focus?

Favorite leisure time activities for these purchasers are:

- Reading: 74.2 percent;
- Shopping: 73.2 percent;
- Music: 72.7 percent.

Many more of them (53.6 percent) read a metro daily paper than read *The Wall Street Journal* (4.6 percent).

The criteria that guide the shopping of these purchasers vary depending on the item. Some items and primary reasons for choosing a store are:

- Men's clothing, women's clothing, shoes: selection;
- Children's clothing: price;
- Toys and games: price and selection;
- Health/beauty aids: price;
- TVs, VCRs, stereo equipment, major appliances, home improvement: price;
- Groceries: location.

And what are these purchasers planning to buy? Seventy-nine percent plan to buy furniture in the next year, 58 percent for the living/family room, 37.6 percent for the bedroom and 19.4 percent for the dining room. Forty percent are planning to buy a car or truck; 40 percent a major home appliance; 22 percent a home or land; almost 14 percent a computer; 29 percent stereo equipment; and 43 percent a TV or VCR.

Even among the total sample, the interest in products for the home is strong. Almost one-quarter of all shoppers surveyed plan to buy furniture in the upcoming year; 16 percent a major home appliance; 25 percent a car or truck; 10 percent a home or land; 15 percent a TV or VCR; 12 percent stereo equipment; and over one-third plan to spend money on vacation and travel.

Knowing where consumers are heading is, of course, one of the trickiest problems the retailer must deal with. The thought they are heading home is worthy of consideration.

Harvey D. Braun is national partner for retailing and chairman of the Retail Services Group at Touche Ross, the Big Eight accounting and consulting firm. Now based in the firm's national office in New York, Braun has consulted to retailers on a range of issues for over 25 years.

They look the same, but one will give you less static.

Phone
Phone
AT&T LONG DISTANCE SERVICE
AT&T

One of these phones has AT&T long distance service. That's the phone you won't hear about from your customers. And, that's the service to choose for your public telephones.

Over 65 million customers use AT&T every day. They will be looking for the AT&T decal, and when they find it on your door, they'll know you're providing them with the highest quality available. AT&T Guaranteed Service.

That means, in addition to uncompromising sound quality, AT&T provides efficient operators, calls that go through quickly, immediate credit for misdialed numbers, and the ability to call anywhere in the world. After all, AT&T provides the most reliable long distance service. That doesn't just sound good. It makes you look good.

So, choose AT&T. Because if your customers don't hear "thank you for using AT&T," you may hear some static.

For further details, including information on compensation programs, dial **1 800 KEEP ATT, EXT 1159.**

AT&T
The right choice.

© 1989 AT&T

APPAREL

WOMEN'S/MEN'S/CHILDREN'S/HOSIERY/JEWELRY & ACCESSORIES/UNDERWEAR/INTIMATE APPAREL

It's Chains for Jeans

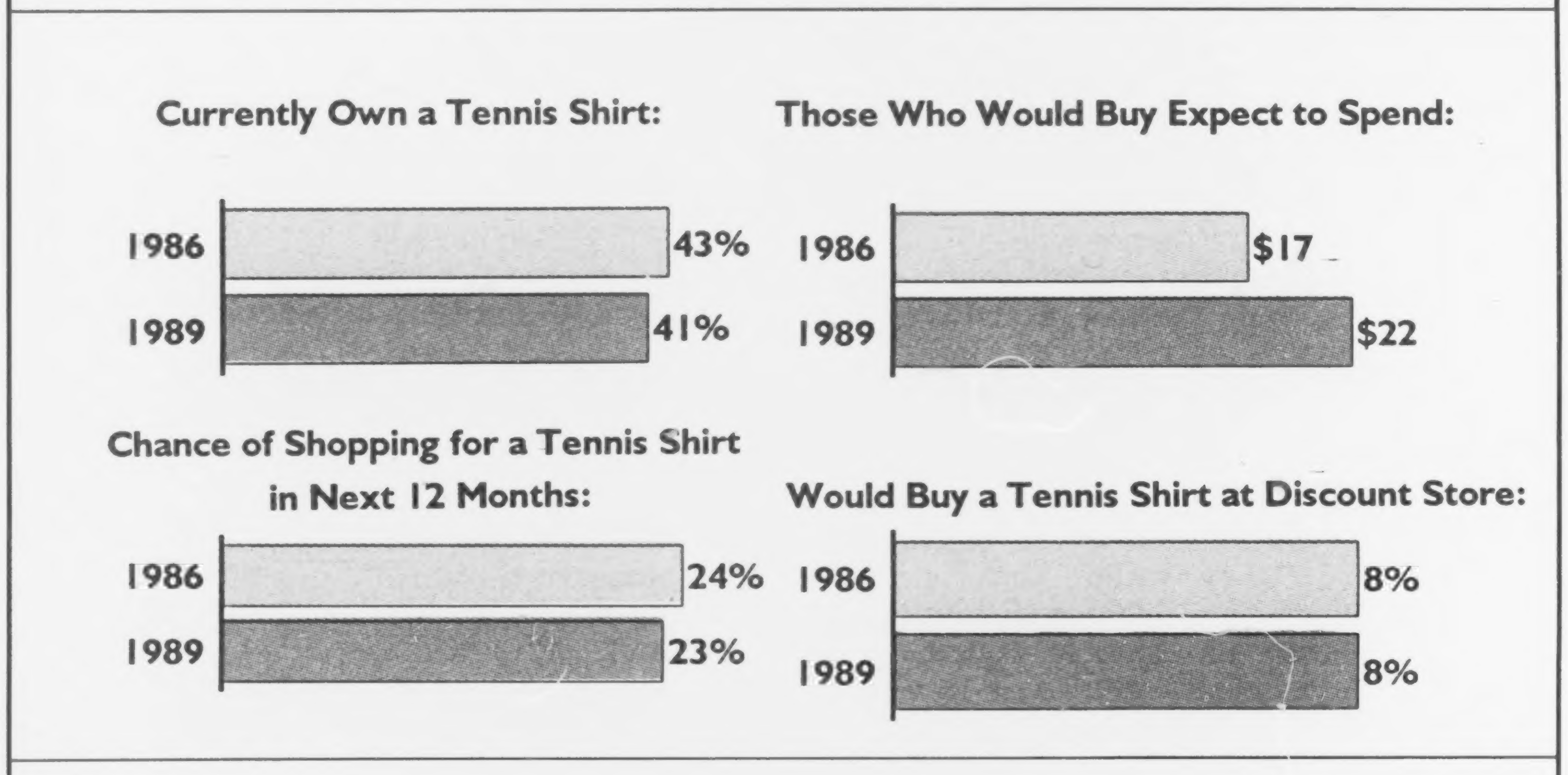
Study Finds Jeans Are the Men's Wear Item Most Likely to Be Bought at Discount Department Stores

1989 Men's Wear Study

	Tennis Shirt	Men's Shorts	Dress Shirt	Dress Slacks	Jeans	Cotton Slacks
Currently Own	41%	55%	87%	84%	84%	42%
Chance of Shopping for in Next 12 Months	23	36	62	57	64	30
Among Those Who Would Buy:						
Would Expect to Spend:	$22	$16	$24	$35	$25	$28
Would Buy at:						
Discount Dept. Store	8%	6%	6%	4%	11%	8%
National Merchandiser	18	21	21	18	20	14
Full-Price Dept. Store	37	37	41	44	26	46
Specialty Store	31	27	20	25	30	18
Sporting Goods Store	12	19	1	1	1	0
Other	6	1	6	3	3	6

Source: Leo J. Shapiro & Assoc./DSN

Tennis Shirts



Source: DSN; Leo J. Shapiro & Assoc.

Nationwide DSN Report

To a majority of consumers, both men and women, discount department stores are not considered a major source for men's wear, especially "dressier" clothing.

According to a special consumer men's wear study conducted for *Discount Store News* by Leo J. Shapiro & Associates, Chicago, discount department stores trail upscale department stores, specialty clothing stores, and national mass merchandise chains like Sears, JCPenney and Montgomery Ward, as the stores in which shoppers would most likely purchase each of six popular items of men's apparel.

However, among the six products mentioned in the survey, the propensity to purchase at a discount department store is highest for jeans (11 percent), tennis shirts (8 percent) and cotton slacks (8 percent).

They are less likely to purchase dress slacks at a discount store (4 percent vs. 44 percent at an upscale department store), and dress shirts (6 percent vs. 41 percent at an upscale department store).

The study also found that the majority of American males already own a dress shirt (87 percent), dress slacks (84 percent) and jeans (84 percent). Just over half (55 percent) own shorts. Fewer own cotton slacks (42 percent) and tennis shirts (41 percent).

Of the types of clothing studied, men are most likely to shop for jeans (64 percent) and dress shirts (62 percent) in the coming 12 months, according to the survey. Their color preferences will be white for tops (tennis shirts, dress shirts) and blue for bottoms (shorts, dress slacks, jeans), except for cotton slacks (men prefer tan).

A comparison of the current sampling with a similar survey conducted in 1986 reveals only minor changes in consumer attitudes toward men's wear in the past three years.

For example, tennis shirts are owned by 41 percent of U.S. men now, compared with 43 percent in 1986. The intent to purchase a tennis shirt is also virtually unchanged: 23 percent expect to buy one in 1989 compared with 21 percent in 1986.

Slightly more men own a pair of shorts in 1989 (55 percent) than in 1986 (52 percent). Nike, the preferred brand of 11 percent of probable purchasers, overtook Adidas (9 percent) as the preferred brand since 1986.

(Continued on page 195)

THE CUTTING EDGE

The Benefits of Being Off the Beaten Path

KEN CHANKO
Senior Editor

When it comes to buying power, the conventional wisdom is that the bigger you are the more power you have.

That's not a difficult concept to comprehend. The more stores you operate, the bigger your orders, the more your supplier is likely to cater to you in 'extra-special' ways.

So what are smaller regional discounters like Fishers Big Wheel and Prange Way—or even the bigger regionals like Jamesway or ShopKo—to do? How can they compete with the giant K marts, Wal-Marts and Targets of the world?

While on the surface, the situation at the regional chains might seem troubling, let's take a closer look.

Many regional chains, especially the smaller ones, are, by their very nature, in small towns, the nearest mall being many miles away. At least as it relates to apparel, being in the boonies is hardly the worst thing in the world.

The key here is that many image-conscious branded manufacturers—like Bugle Boy, Pacific Coast Highway, Cotler, etc.—cater to department and specialty stores. These vendors certainly don't want to go out of their way to advertise their association with discounters, yet they certainly don't mind the volume business they reap by selling those same discounters.

So what several "upscale" vendors are doing is going with the smaller, more out-of-the-way chains. By selling directly to regional discounters on a select basis, these vendors can do some nice volume business, yet not antagonize their more upscale customers. After all, the nearest Macy's or Jones Store is a couple of towns away.

Even though a chain like Fishers Big Wheel, for example, would have to be discreet about alerting shoppers to its Bugle Boy items in ads, it would soon get around among the locals in, say, Somerset, Penn., that the Big Wheel—rather than the K mart—is the discounter carrying the Bugle Boy brand.

Also, many manufacturers with "something new" to offer—whether it's a new licensed product or just a new look—won't necessarily go calling on K mart or Wal-Mart first thing. Most manufacturers like to "test" the product in a limited way, and in an environment they have a little more control over. Dealing with the giant chains on a new product that might require special handling to get off the ground just doesn't make sense.

So the sharper regional chains are doing anything but wringing their hands. They're remaining flexible and open to new ideas. Even though they might be off the beaten path, they're finding many of the better manufacturers beating a path to their door.

Study: Consumers Look Elsewhere for Men's Wear

(Continued from page 192)

A smaller percentage of men said they would buy their shorts at a discount department store in 1989 (6 percent) than in 1986 (8 percent).

In contrast to the problem that adversely affected women's wear business last year, most consumers are happy with the styles available in men's clothing, according to the report.

Of note, women, who purchase a significant percentage of men's apparel, are particularly pleased with the current men's styles. When asked how they feel about the styles in men's wear, 41 percent of women surveyed and 34 percent of men said the fashions are better. Their reasons: different styles (cited by 21 percent) and brighter/variety of colors (18 percent).

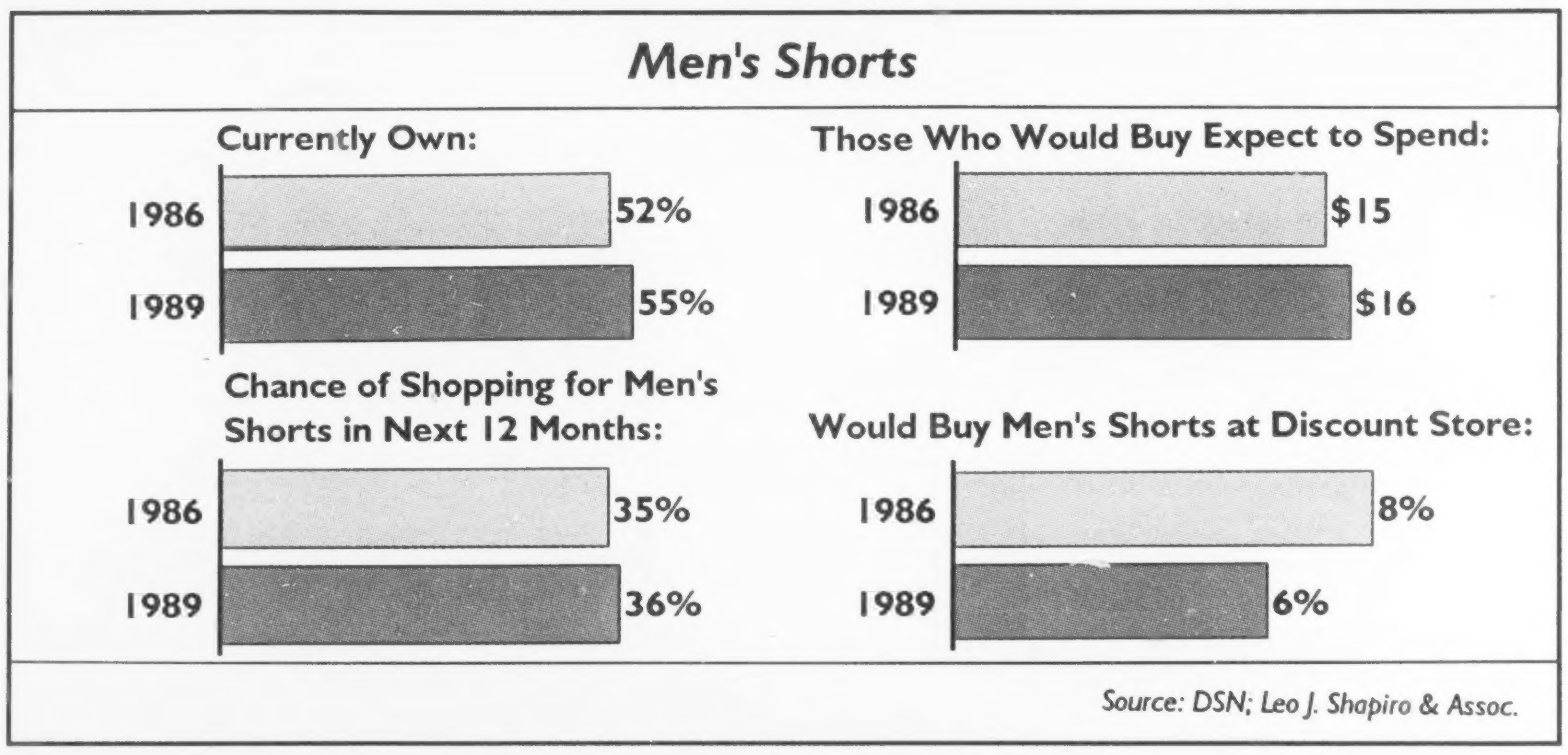
However, the baggy look appears to have passed its peak. Among consumers who feel styles are worse this year (12 percent of the total), one-third (33 percent) complained that the clothes are too baggy.

As previously reported in *Discount Store News* (see *DSN*, March 6, page 33), casual cotton slacks are rapidly gaining favor among consumers. Forty-two percent of men currently own cotton slacks (described in the survey as "slacks for men that are more for casual wear but are a bit dressier than jeans, often coming in all cotton and having pleats in front"). Nearly one-third of the survey population said they might be buying a pair in the coming 12 months and 8 percent said they would expect to buy them at a discount department store.

Given that these "Dockers-style" slacks bridge the gap between jeans (the strongest men's wear category for discount stores) and dress slacks (the weakest), discount department stores, especially upscale discounters, may be able to capitalize on this growing trend.

Men and women surveyed said they expect to spend the most on dress slacks ($35 for a pair) and the least on shorts ($16). They would expect to pay $28 for cotton slacks, $25 for jeans, $24 for a dress shirt and $22 for a tennis shirt.

This year's men's wear study was conducted during the first quarter with a national sample of 450 U.S. households, alternating between "the man and the woman of the house." Some questions were asked only of men.



Source: DSN; Leo J. Shapiro & Assoc.

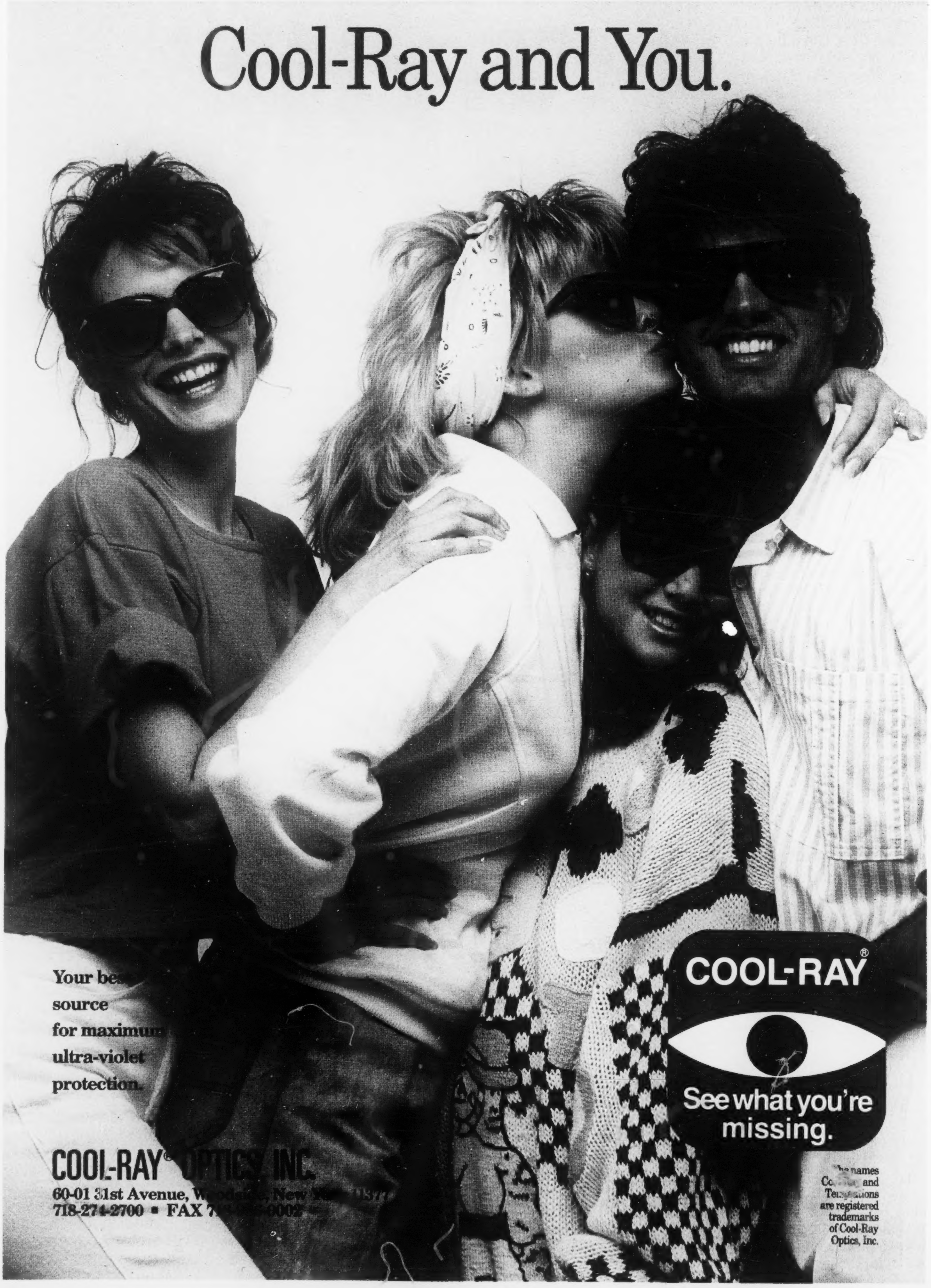
S&K Reports Record Sales

RICHMOND, Va. — S&K Famous Brands reported record sales of $52.4 million for its fiscal year ended Jan. 28, a 22 percent increase over its previous year's volume.

Net operating earnings also hit record levels, advancing 23 percent to nearly $2.2 million. Net earnings only rose by 1 cent per share, from $1.04 to $1.05, but the prior year included a 19-cent per share boost due to an accounting change.

During 1988, the men's wear chain opened 15 stores in seven new markets, expanding its geographic area to 16 states with 74 stores. Ohio and Louisiana are the most recent states added in S&K's expansion into the Midwest and Southeast. During the first quarter of this year, the company opened two new stores, one in Kenosha, Wis., and a second in Knoxville, Tenn.

S&K plans to double its store count by 1992.



Cool-Ray and You.
COOL-RAY®
See what you're missing.
Your be
source
for maximu
ultra-violet
protection.

COOL-RAY® OPTICS, INC.
60-01 31st Avenue, W New Yo 11377
718-274-2700 ▪ FAX 7 0002

names
Co and
Te
are registered
trademarks
of Cool-Ray
Optics, Inc.

Kmart Eyes Payback on New Retail Technology

(Continued from page 1)

stores to run the different programs. Overall, the discounter will have spent about $1 billion by then on technology, with undisclosed amounts apportioned out for capital expenditures like computers and other equipment, development expenses for software (which are charged as they occur) and operating costs.

The major payback from this investment is a reduction of 1.5 percent in store expenses as a percentage of sales. The goal, to be evident by 1992, is based on the approximate 23 percent expense-to-sales ratio of the past few years.

Technology plays a key role in K mart's plan to centralize its merchandising and replenishing program. When technology and centralized merchandising are combined, Antonini said, K mart should achieve a 0.25 percent improvement in turns each year during the next four years.

Scanning, the most basic technology, is already in place in over 1,200 K marts, with 1,700 stores expected to be equipped for scanning by the end of this year. Chainwide scanning will be in place by the end of 1990.

Antonini noted that scanning enabled K mart to centrally merchandise small appliances for the first time in 1988. While same stores sales last year were up 4 percent, small appliance volume in comparable stores increased 11 percent.

"This substantial gain was directly attributable to improved merchandising and inventory balancing techniques which are only economically available through the use of UPC scanning technology. This program was also supported by EDI with many of the department's vendors," Antonini said.

By 1990, K mart expects that scanning and EDI will enable it to centrally merchandised 75 percent of its goods.

Carlson noted that K mart has EDI programs with over 1,000 vendors, the vast marjority of which are hard lines suppliers. Most companies use the chain's own 11-year-old proprietary system, with less than 100 employing the VICS ANSI X.12 or UCS formats.

"We will continue to use our proprietary format as long as our vendors want us to," he said. "The vendors made an investment and we feel that we shouldn't arbitrarily obsolete their investment."

But all new vendors will have to use the VICS X.12 standard, he said.

The sales information captured by scanning or keying in sku's in non-scanning stores are sent to the data center via K mart's satellite network. About 1,450 stores will be on the network by the end of the year and the system will be used chainwide by the spring '90, Carlson said.

The network provided two-way data and video transmissions, including real-time credit card authorization. Sales information is batch captured at night.

Sales and training information such as the display of new items is broadcast to the stores, which tape the presentations to develop a library of programs that employees can view as needed.

The KIN system controls a number of programs, each of which is maintained on the store's own computer. These separate programs are connected to and communicate with each other through a LAN (Local Area Network) system in each store.

Carlson said this arrangement provides a safety net so that if any computer goes down, only one specific program will be affected and the store and the other systems can still function normally.

K mart has individual store computers to operate its layaway, pharmacy, backroom receiving and marking, credit authorization and integrated shelf marking systems.

LAN enables any computer to communicate with another and draw needed information from any other terminal. The layaway program, for example, can access the credit authorization system to verify a customer's credit rating and the shelf marking program to check on the price of an item.

While there are obvious merchandising and operations benefits from all these technologies, Carlson said there is a human impact as well.

"They provide direct information to our employees. The satellite network, for example, helps to motivate them because they feel like and are much more a part of the company than they have ever been."

Ames' Job Fair Softens Fallout from Merger with Zayre

(Continued from page 1)

jobs at its Rocky Hill, Conn., headquarters to 500 to 600. Of those, only 150 have accepted the offer, said Ralph Hamel, former director of training for Zayre and former head of the outplacement operation for the Zayre division of Ames.

In addition to firings at headquarters, about 7,400 store employees lost their jobs last December when Ames closed 74 stores five weeks after acquiring Zayre Oct. 28.

Hamel was one of those who left Ames (at the end of April), rather than leave the Boston area for Rocky Hill, south of Hartford. "I have a daughter in college here," Hamel said. "I'm a two-career family, and I've lived here for 16 years."

Many executives are declining Ames job offers because they have job opportunities in the Boston area and prefer Boston over Rocky Hill, Hamel said.

"New England is an important labor market for Ames," Hamel said in a interview before his departure. "We want 1,500 ambassadors of good will, not 1,500 bitter, ex-employees. Outplacement is good business."

Ames is phasing out Zayre headquarters over the next eight months, and the last 70 employees in finance and management information services are scheduled to depart Dec. 31, Hamel said. The speed with which Ames can consolidate operations at Rocky Hill will determine how fast the five Zayre headquarters buildings in Framingham and Natick shut their doors for good, he said.

About 220 more employees got pink slips effective the last week of April and the first week of May.

Around 50 Zayre employees opted to retire under the pension plan of Zayre Corp., Hamel said. Ames offers no company-funded retirement plan, but under the acquisition agreement, Zayre Corp. must maintain a trust to fund retirement pay for ex-Zayre employees, even if they transfer to the Ames payroll, he said.

Thanks to the booming labor market in the Boston region, about half of the Zayre staff will get jobs on their own, Hamel said. All employees are eligible for severance, Hamel said, but Ames declined to disclose how much of a reserve it established for severance pay.

To ease their departure, Hamel was operating what he called the Zayre Career Continuation Center. In that 12,000-square-foot building, Zayre is offering the employees seminars on:

- Interviewing skills, including videotaped sessions involving expected questions;
- Financial planning, including how to invest lump-sum severance payments and how to live on unemployment benefits, if it came to that;
- How to find a job;
- How to handle the stress and loss of self-esteem that comes from getting fired.

Some 350 employees so far have taken the seminars, Hamel said, and about half of those already have found jobs.

In addition, Ames is offering the employees free use of phones to make long distance job search calls and is printing resumes right at the placement center, Hamel said. Ames even pays the postage to mail resumes.

The Zayre center is linked by 10 computer terminals to the state unemployment office in Boston, and three state employees are working at the center. Employees can use the terminals to search through the 40,000 jobs listed in the computerized job bank of the unemployment office, he said.

The Massachusetts Department of Employment and Training co-sponsored the "Zayre Career Continuation Job Fair" held April 18 at the Sheraton Tara hotel in Framingham. Theme of the fair was, "Move Up When Zayre Moves Out."

Around 700 Zayre associates attended the fair, held from 10 a.m. to 8 p.m. About 125 representatives of 50 retailers were on hand to take resumes, conduct preliminary interviews and schedule further interviews for those that passed the initial screening.

Putting workers in touch with employers this way can lop four to six weeks off the job search process, Hamel said.

Discounters participating in the job fair included Stuarts, Bradlees, Child World, Filene's Basement and Hills, all based in the Boston area; Venture, based near St Louis; and Consolidated Stores, Columbus, Ohio.

Also attending were recruiters from T.J. Maxx, Framingham, Mass., the off-price apparel chain of Zayre Corp. that became its core business when it divested the discount store chain.

Hills, for example, was looking for computer programmers and operators, merchandise planners and distributors, and consumer affairs associates. And, Bradlees was seeking to hire secretaries, assistant buyers, distributors, programmer analysts and a systems analyst.

Available Zayre employees range from secretarial through data processing up to executives at the vice presidential level, Hamel said.

DISCOUNT STORE NEWS

(ISSN 0012-3587), is published biweekly—every other Monday—24 times a year except issues of April 24 and Aug. 7, which are published every third week; monthly in December—by Lebhar-Friedman Inc., 425 Park Ave., New York, N.Y. 10022. Subscriptions are available at no charge to qualified retailers and wholesalers. Paid subscriptions are available to manufacturers and their reps, schools, libraries, govt. agencies and all others—one year, $69; Canada: one year, $75; Foreign subscriptions-Airmail only: $175 (U.S.$ only). Single copy rate $4, except annual census issues $35 ea.

Second-class circulation postage paid at New York, N.Y., and additional mailing offices.

Copyright© 1989 by Lebhar-Friedman Inc. All rights reserved.

Postmaster: please send address changes to Subscription Department, *Discount Store News*, 305 Madison Ave., Suite 535, New York, N.Y. 10164-0659. For change of address six weeks notice is requested. Give old and new address and zip code. If possible, enclose address portion from cover of previous issue.

Vol. 28, No. 9 May 8, 1989

Target Unwraps New Prototype

(Continued from page 5)

South Carolina, Tennessee and Kentucky, Target currently operates 379 stores in 31 states. The discounter's new "Everyday Low Pricing" strategy, previously under test in two markets, was implemented in all of its converted stores in the Southeast. The Eagan prototype does not have the EDLP policy.

To promote the 30 Southeast stores, Target developed a special supplement—Target Across the USA—in *USA Today.* The 16-page, four-color section, which ran in the newspaper's April 26 issue, contained some 10 articles about Target as well as advertisements from 12 suppliers.

The advertisers included Castrol, Country Estates—a new private label bed and bath line developed by C.S. Brooks, Louisville Bedding and Stevens—Coca-Cola, Gitano, American Greetings, Gloria Vanderbilt, Milton Bradley, Mead, Stuart Hall, Brittania, and EPI Products.

Hite projects that Target will have 400 units by year-end. Sales are expected to top the $7 billion mark in 1989.

Periodically, MILES Inc. offers promotional discounts and/or various performance allowances for displaying, advertising and promoting our product lines. Point-of-sale and display materials, e.g., dump bins, channel strips, wags, etc., are available. These offers are practical and useable by all retailers regardless of size.

Specific brands included are:
ALKA-SELTZER® FLAVORED ALKA-SELTZER®
EXTRA STRENGTH ALKA-SELTZER®
ALKA-MINTS® Chewable Antacid

ALKA-SELTZER PLUS® Cold Medicine.
ALKA-SELTZER PLUS® Night-Time Cold Medicine

BACTINE® MILES® NERVINE

ONE-A-DAY® (Brand) Multivitamin/Multimineral Supplements

WITHIN® from ONE-A-DAY® Multivitamin Supplement

BIOCAL™ (Brand) Calcium Supplement

FLINTSTONES® (Brand) Multivitamin/Multimineral Supplements

Sugar Free BUGS BUNNY® (Brand) Multivitamin/Multimineral Supplements

For details, contact your Miles Inc. Sales Representative or wholesaler or write:

DANIEL M. CONTI
Manager, Trade Promotion
Consumer Healthcare Division

MILES

© 1987
Miles Inc.
Consumer Healthcare Division
Elkhart, IN 46515